STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

COMPONENT UNIT FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1992

STATE EMPLOYEES'
RETIREMENT SYSTEM
OF ILLINOIS

2101 South Veterans Parkway
P.O. Box 19255
Springfield, Illinois 62794 - 9255

Prepared by the
Accounting Division

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INTRODUCTORY SECTION

SRS STATE RETIREMENT SYSTEMS

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255, Ph. (217)785-7444

November 30, 1992

The Board Of Trustees and Members
State Employees' Retirement System
Of Illinois
Springfield, IL 62794

Dear Board and Members:

The component unit annual financial report of the State Employees' Retirement System of Illinois (System) for the fiscal year ended June 30, 1992 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the various funds of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included. The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization;
2. The Financial Section which contains the report of the independent public accountants, the financial statements of the System, and the required supplementary and additional financial information;
3. The Actuarial Section which contains the report of the Actuary as well as the summary of major actuarial assumptions and certain tables;
4. The Investment Section which contains a summary of the System's investment management approach *and selected summary tables, including investment performance;*
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

The combined financial statements include the State Employees' Retirement System Trust Fund (System Trust Fund) and the Social Security Contribution Fund (Contribution Fund), an Agency Fund. Based primarily upon the criteria of financial interdependency and ability to significantly influence operations and accountability for fiscal matters, the System has included the Social Security Contribution Fund in its combined financial statements. Although the State Employees' Retirement System, Judges' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the State Employees' Retirement System do not include balance sheet information nor the results of operations of the General Assembly Retirement System or Judges' Retirement System.

PLAN HISTORY AND SERVICES PROVIDED

The System is the administrator of a single-employer public employee retirement system established to provide pension benefits for State of Illinois employees. The System also administers widows and survivors benefits as well as the state's occupational and non-occupational disability programs.

The System Trust Fund was established January 1, 1944 and 17,237 state employees became members on that date. As of June 30, 1944, net assets of the System amounted to $1,255,778. Plan assets at the end of the fiscal year June 30, *1992 are approximately $3.3 billion, and there are 77,194 active members.*

Significant events and dates during the forty-eight year history of the System Trust Fund are as follows:

January 1, 1969: *All members of the System Trust Fund (excluding State Police) had the option of voting to coordinate their benefits with the federal social security program or remain exclusively under the System Trust Fund. Any* *employee becoming a member of the System Trust Fund after December 31, 1968 was mandatorily covered by social security, unless the nature of their position excluded them from participation (i.e., "police" and "firemen" positions).*

October 1, 1975: *Several additional position classifications were determined to meet the definition of "police" for purposes of rendering the members ineligible for social security coverage.*

January 1, 1982: *A new benefit formula was established for members working at the Department of Corrections who have daily or direct contact with inmates.*

August 23, 1989: *Governor James R. Thompson signed Senate Bill No. 95 into law (P.A. 86-0273). The bill provides for a seven year "phase - in" approach to funding by the State of Illinois. The long term intention is to provide contributions sufficient to cover "normal cost" of the System Trust Fund and also amortize any prior year underfunding by the state.*

July 24, 1991: *An Early Retirement Incentive (ERI) bill is signed into law (P.A. 87-0014). This ERI bill allows eligible members to establish up to five years of service credit and age by making contributions for one-half of the service to be established.*

January 1, 1992: *Effective on this date, virtually all state agencies participating in SERS began to pay all or a part of the required employee retirement contributions due to SERS. This plan is commonly referred to as an "employer pickup" plan of employee retirement contributions.*

REVENUES

Collections of employer and employee retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These income sources totaled $584.7 million during the fiscal year ending June 30, 1992, which is a substantial increase from revenue reported for fiscal year 1991, shown as follows:

	1992 (Millions)	1991 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Retirement System Trust Fund				
Contributions:				
Employees	$ 141.9	$ 120.2	$ 21.7	18.1%
Employer	98.5	116.0	(17.5)	(15.1)
Investments	344.2	180.5	163.7	90.7
	$ 584.6	$ 416.7	$ 167.9	40.3%
Social Security Contribution Fund				
General Revenue,				
less balances lapsed	.1	.1	-	-
	$ 584.7	$ 416.8	$ 167.9	40.3%

Employee contributions have exceeded employer contributions for the past four fiscal years; and, as indicated in the total above, a substantial portion of the total revenue is derived from investment income. Investment income includes the realization of net gains on the sales of investments, during both fiscal years 1992 and 1991. The increase in employee contributions is also largely due to optional service purchases by members taking advantage of the ERI program and recently enacted legislation which allows for the purchase of service while serving in the military.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System Trust Fund. Expenses of the System Trust Fund and Social Security Contribution Fund for 1992 and 1991 are shown for comparison purposes.

	1992 (Millions)	1991 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Retirement System Trust Fund				
Benefits:				
Retirement annuities	$ 215.5	$ 166.4	$ 49.1	29.5%
Survivors' annuities	25.1	23.6	1.5	6.4
Disability benefits	17.8	16.6	1.2	7.2
Lump-sum death benefits	8.3	8.7	(.4)	(4.6)
	$ 266.7	$ 215.3	$ 51.4	23.9%
Refunds (including Transfers)	16.9	11.8	5.1	43.2
Administrative expenses	4.2	3.8	.4	10.5
	$ 287.8	$ 230.9	$ 56.9	24.6%
Social Security Contribution Fund				
Administrative expenses	.1	.1	-	-
	$ 287.9	$ 231.0	$ 56.9	24.6%

The increase in benefit payments results primarily from the Early Retirement Incentive program and an increase *in the average benefit payment amount.*

INVESTMENTS

Income from investments has, over the years, increasingly become a greater share of the total revenue of the System. Net investment income, combined with a net realized gain on the sale of investments, amounted to $344.2 million during fiscal year 1992, an increase of $163.7 million from fiscal year 1991. Both domestic equity and fixed income portfolios produced strong returns and the Illinois State Board of Investment (ISBI) Fund's performance in these areas was far superior to the industry's averages. Income from investments represents 58.9% of total fund revenue. The ISBI had a 11.6% rate of return on market values for the year ended June 30, 1992.

A detailed discussion of investment performance and strategies is provided in the Investment Section of this report.

FUNDING AND RESERVES

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 1992, amounted to $5,600.8 million. The fund balances for participant contributions, interest accumulations and other future benefits amounted to $3,278.2 million as of the same date. The amount by which the liability exceeds the reserves is called the "unfunded present value of credited projected benefits". The unfunded present value of credited projected benefits amounted to $2,322.6 million and reflects the continuing state policy of appropriating funds at amounts less than the actuarially determined contribution requirement. A detailed discussion of funding is provided in the Actuarial Section of this report.

ECONOMIC CONDITION AND OUTLOOK

Financing the retirement benefits that are being earned is one of the most important issues facing the System Trust Fund. Over the years, a number of organizations have stressed the need for sound funding of the System. In August 1989, then Governor Thompson signed Senate Bill 95 into law. This Bill provided for the increased funding of the unfunded actuarial liability which has been steadily increasing over the past several years. The amortization period of the unfunded liability was established at 40 years and is scheduled to begin in 1996. In order to defer the cost of a substantial increase in the required employer contributions, a seven year phase-in period was included in the legislation. The seven year phase-in period was to be used to increase the amount of contributions from the current contribution level to that level required for the amortization of the unfunded liability over the 40-year period. However, the state has not appropriated sufficient monies to cover the employer share of retirement contributions during the past three years of the phase-in period.

The System monitors any legislative proposals which may have a potential impact on the status of the Trust Fund. In addition to the Early Retirement Incentive (ERI) Program, which is discussed later in this transmittal letter, there were other legislative changes that had a direct impact on the System. These changes were a direct reflection of current economic conditions in the State of Illinois.

As part of the ERI legislation, authorization was also given to the Governor to transfer up to $50 million from certain miscellaneous funds to the General Revenue Fund. Under this authority, the Governor requested the transfer of $21 million from unclaimed property receipts which normally are appropriated to the five state financed retirement systems. Although this action was opposed in court, the transfer was ultimately made on June 1, 1992.

While both the ERI and fund transfer unquestionably had a negative impact on the financial condition of the System, legislation introduced and passed during the 1992 spring session of the General Assembly reflects a positive movement. Specifically, Senate Bill 1949 changed the state's Unclaimed Property Act to provide for a holding period of five instead of seven years. This will result in the availability of an additional $50 million which will be divided among the five state financed retirement systems during FY93. As a result of this legislation, the System should receive an additional $8.6 million.

Also, the General Assembly approved House Bill 3230, which provides for a continuing appropriation of funds due the five state financed retirement systems from unclaimed property receipts. This legislation has the effect of making the annual appropriation of these funds automatic, not requiring specific action of the General Assembly. While the normal level of financing from unclaimed property is small, less than $4 million a year, enactment of this legislation establishes a very positive precedent. We are optimistic that over the next two years new funding legislation will be enacted to address the unfunded liability issue, and we strongly believe that this legislation should be accompanied by a continuing appropriation to ensure that, once enacted, the plan will be followed in future years. Both of these bills, Senate Bill 1949 and House Bill 3230, were signed into law by Governor Edgar on August 26, 1992. The Governor has also indicated publicly that he considers the underfunding of the System an important issue which he intends to address during his administration. Leaders in the General Assembly have also indicated a similar interest. We are, therefore, optimistic that once the state budget crisis is brought under control, legislation which will establish a solid actuarial funding program will be forthcoming. Also, we are optimistic that the General Assembly will address the improvement of the System's retirement benefit formula which applies to over 60,000 state employees.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure of the financial status of a retirement system because no universally accepted measure of the financial status presently exists. By any reasonable actuarial standard, however, the System's present financial condition must be described as precarious due to the continually increasing dollar level of the unfunded liability. The events in the financial markets during the past several years serve as a constant reminder of the fact that no source of revenue can be guaranteed and that the responsibility for a sound funding policy and the related liability for contributions rests ultimately with the State of Illinois.

MAJOR INITIATIVES

Fiscal year 1992 projects included two pieces of legislation: 1) On July 24, 1991, Governor Jim Edgar signed Senate Bill 0045 into law as Public Act 86-0014. This bill allowed for an early retirement incentive program for employees meeting certain criteria specified in the bill. Generally, an employee was allowed to establish up to 60 months of additional creditable service upon payment of the required contributions at one-half of the normal contribution rate; 2) Effective January 1, 1992, the state began to "pickup" or make payment on behalf of employees for their share of retirement contributions to the System. This pickup was done on an agency-by-agency basis and required agency director certification.

New projects for fiscal year 1993 include: a) A review of the benefit application package; b) A review of the in-house education program in order to maintain a high level of technical ability regarding items such as letter composition, time management, etc.; and c) Installation of a new computer system designed to meet the data processing needs of the System. In addition, several long-range projects have been established. These projects will generally have a timetable of 3 to 5 years to complete and involve virtually all divisions within the System. The long-range projects include: a) voice activated response systems; b) computer imaging and automated data entry; and c) expanded benefit information, among others.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the System Trust Fund. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

The administrative expenses of the Social Security Contribution Fund are appropriated annually by the Illinois State Legislature and included in the financial statements of the System Trust Fund. The Contribution Fund uses the modified accrual basis of accounting. The System also uses the State of Illinois, Comptroller's Uniform *Statewide Accounting System* (CUSAS) as a basis for the preparation of the financial statements. In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by The Wyatt Company, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a two year compliance audit was also performed by the auditors. The purpose of the compliance audit was to determine whether the State Employees' Retirement System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State Employees' Retirement System of Illinois for its component unit financial report for the fiscal year ended June 30, 1991. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such component unit financial reporting must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State Employees' Retirement System of Illinois has received a Certificate of Achievement for the last six consecutive years (fiscal years ended June 30, 1986 through June 30, 1991). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate

ACKNOWLEDGMENTS AND COMMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the members in the State of Illinois. On behalf of the Board of Trustees, we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

Michael L. Mory
Michael L. Mory
Executive Secretary

Nicholas C. Merrill, Jr.
Nicholas C. Merrill, Jr., CPA
Chief Fiscal Officer

STATE RETIREMENT SYSTEMS

- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255, Ph. (217)785-7444

TO: All Members of the State Employees' Retirement System of Illinois

This has been one of the most dynamic and also one of the most difficult years in the history of the State Employees' Retirement System (SERS).

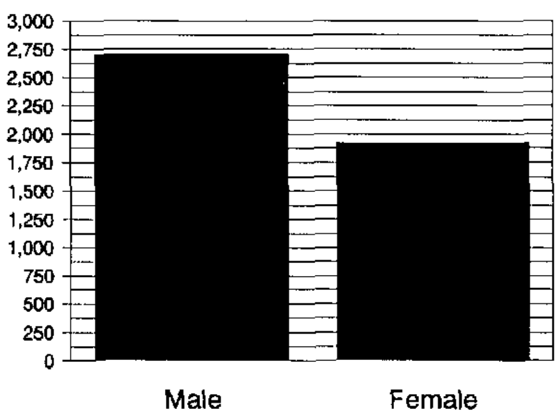
On July 24, 1991, Governor Jim Edgar signed Senate Bill 45 into law as Public Act 87-0014. This legislation provided an opportunity for members of SERS to purchase up to five years of service credit at one-half of the normal employee contribution rate. It was the first time since the establishment of SERS that an Early Retirement Incentive (ERI) program was extended to the membership.

There were approximately 14,000 members who were eligible for the ERI program. Of these eligible employees, slightly over 4,600 members elected to participate. The actuarial cost of the ERI program to SERS was nearly $231.5 million. Unfortunately, the General Assembly did not pass any legislation to provide funding for the additional liability to SERS. This has had a negative effect on the funded status of the system.

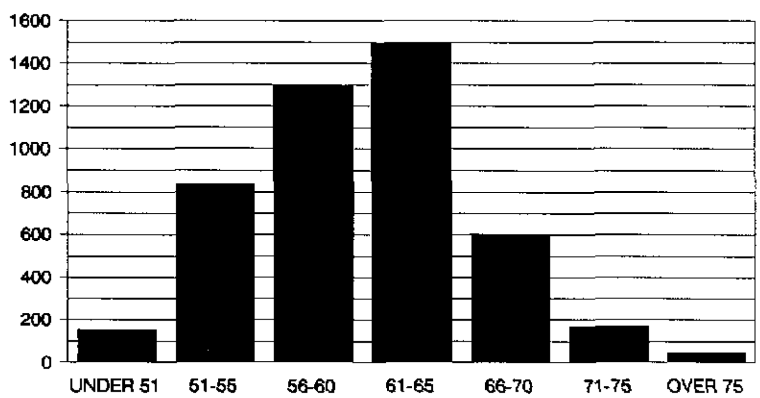
The goal of the ERI program was to provide state employees with the opportunity to retire early in the face of a very difficult budgetary year. This past fiscal year has included large scale cutbacks and, sad to say, a significant number of layoffs. The ERI program also allowed the State of Illinois to replace some retiring employees with newer employees at lower rates of pay, thereby generating some additional savings to the state.

A summary of the members who took advantage of the ERI program follows:

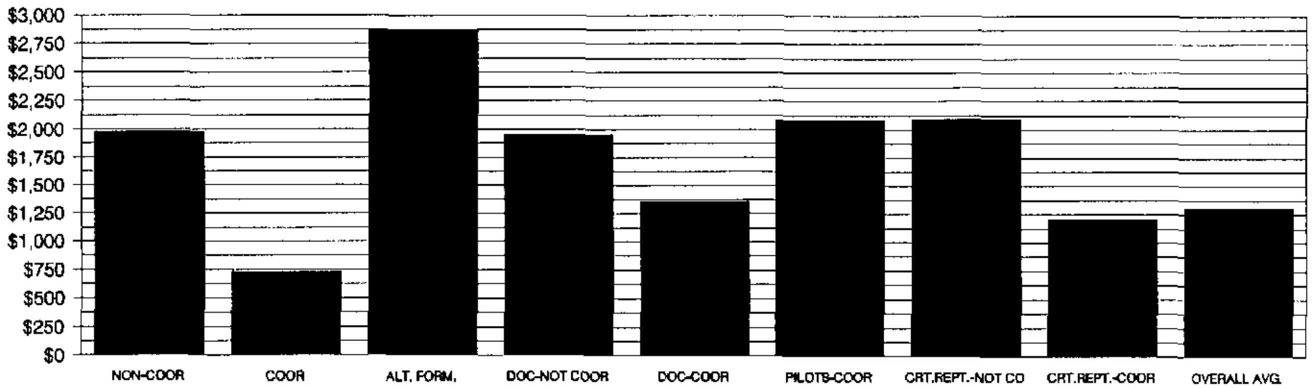
Retirees by Sex



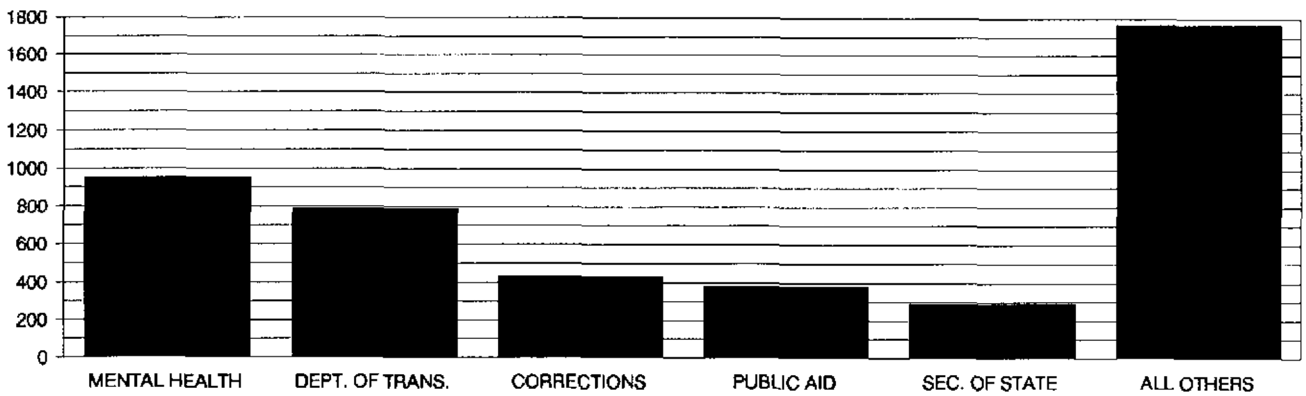
Retirees by Age



Average Benefit by Type



Retirees by Agency (Top 5 and other)

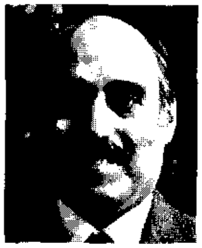


The overwhelming success of administering the ERI program was due to the outstanding effort and superb dedication of the staff of SERS. I want to personally thank each member of the staff for their persistence and determination in seeing that this tremendous task was performed in an orderly and efficient manner.

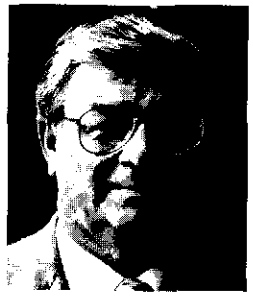
Sincerely yours,

Kenneth W. Obrecht Chairman
Board of Trustees

Board of Trustees

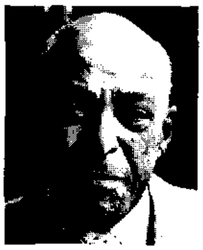


Loren Iglarsh
Representing Dawn Clark Netsch
Comptroller



Kenneth Obrecht
Chairman, appointed
by the Governor

Michael Colsch
Representing Joan Walters
Director of the Bureau of the Budget



Edward L. Stewart
Annuitant, Appointed
by the Governor

Doris Clark
Elected Annuitant

Jerry Rittenhouse
Elected Employee

Trustee position of
State Employee, Appointed by
the Governor is currently
vacant

Illinois State Board
of Investment

Internal and External
Investment Managers

Consultants

Medical
Consultants

Actuary

Certified Public
Accountants

Staff

Executive Secretary
Michael L. Mory

Internal Auditor
Terry E. Radliff

Associate Executive Secretary
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Administrative Services
Division
William T. Weir

Chicago Division
Barbara J. C. Baird

Claims Division
Patrick P. Cummings

Data Processing Division
James J. Spears

Field Services Division
John A. Sowinski

Service & Refunds Division
Joseph S. Maggio

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State Employees' Retirement System of Illinois

For its Component Unit
Financial Report
for the Fiscal Year Ended
June 30, 1991

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose component unit financial reports (CUFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

FINANCIAL SECTION

Independent Auditor's Report

Financial Statements

Required Supplementary Information

Supplementary Financial Information

Additional Financial Information

McGLADREY & PULLEN

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable William G. Holland
Auditor General, State of Illinois
Springfield, Illinois

Board of Trustees
State Employees' Retirement System of Illinois
Springfield, Illinois

We have audited, as special assistant auditors for the Illinois Auditor General, the accompanying combined balance sheets of the State Employees' Retirement System of Illinois as of June 30, 1992 and 1991, and the related statements of revenue, expenses and changes in fund balance for the years then ended. These component unit financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these component unit financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the State Employees' Retirement System of Illinois as of June 30, 1992 and 1991, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the component unit financial statements as of and for the years ended June 30,1992 and 1991, taken as a whole. The supplementary information included on pages 28 through 35 is presented for purposes of additional analysis and is not a required part of the component unit financial statements. Such information as of and for the years ended June 30, 1992 and 1991, has been subjected to the auditing procedures applied in the audits of the component unit financial statements and, in our opinion, is fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

McGladrey & Pullen

Springfield, Illinois
October 15, 1992

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Combined Balance Sheets - June 30, 1992 and 1991

	1992	1991
Assets		
Cash	$ 12,413,156	$ 18,682,979
Cash, restricted for Social Security remittances	812,879	944,799
Receivables:		
Contributions receivable:		
Participants	4,502,477	4,823,032
Employing state agencies	3,290,664	6,469,173
Other accounts receivable	753,394	757,946
	$ 8,546,535	$ 12,050,151
Investments - held in the Illinois State Board of Investment Commingled Fund at cost (Market value: 1992, $3,619,656,868; 1991, $3,275,201,134) (Note 4)	3,257,144,759	2,949,573,783
Property and equipment, net of accumulated depreciation (Note 9)	4,311,268	4,436,451
Total Assets	$3,283,228,597	$2,985,688,163
Liabilities and Fund Balance		
Benefits payable	$ 1,396,870	$ 1,484,896
Refunds payable	452,602	267,894
Administrative expenses payable (Note 8)	684,529	677,736
Participants' deferred service credit accounts	1,634,160	898,285
Unremitted Social Security contributions	101,879	436,539
Amounts held for Social Security remittances	711,000	508,260
Total Liabilities	$ 4,981,040	$ 4,273,610
Fund Balance		
Actuarial present value of credited projected benefits (Notes 4 and 6)	5,600,766,741	4,949,880,212
(Less) unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(2,322,519,184)	(1,968,465,659)
Total Fund Balance (Note 11)	$3,278,247,557	$2,981,414,553
Total Liabilities and Fund Balance	$3,283,228,597	$2,985,688,163

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

State Employees Retirement System Trust Fund
Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1992 and 1991

	1992	1991
Revenue:		
Contributions:		
Participants	$ 141,862,797	$ 120,263,354
Employing State agencies and appropriations	98,532,783	115,979,568
Total Contributions revenue	240,395,580	236,242,922
Investments:		
Net investments income	190,811,723	159,804,265
Interest earned on cash balances	666,874	831,847
Net realized gain on sale of investments	152,759,253	19,884,261
Total Investments revenue	344,237,850	180,520,373
	584,633,430	416,763,295
General Revenue Fund appropriations, less balances lapsed	56,972	59,736
Total Revenue	584,690,402	416,823,031
Expenses:		
Benefits:		
Retirement annuities	215,470,012	166,360,086
Survivors' annuities	25,104,054	23,592,609
Disability benefits	17,764,029	16,655,172
Lump-sum death benefits	8,314,277	8,682,519
	266,652,372	215,290,386
Refunds	16,858,445	11,701,256
Administrative expense, System Trust Fund (Note 8)	4,229,293	3,773,536
Transfers to reciprocating retirement systems	60,316	150,674
	287,800,426	230,915,852
Administrative expense, Contribution Fund (Note 8)	56,972	59,736
Total Expenses	287,857,398	230,975,588
Excess of revenue over expenses	$ 296,833,004	$ 185,847,443
Fund Balance at beginning of year	2,981,414,553	2,795,567,110
Fund Balance at end of year	$3,278,247,557	$2,981,414,553

See accompanying notes to financial statements.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 1992 and 1991

(1) Reporting Entity

The State Employees' Retirement System of Illinois (System) is a component unit of the State of Illinois and is composed of the State Employees' Retirement System, a trust fund (System Trust Fund) and the Social Security Contribution Fund, an agency fund (Contribution Fund). The System Trust Fund and the Contribution Fund are considered part of the State of Illinois financial reporting entity and are included in the state's comprehensive annual financial report as a pension trust fund and an agency fund, respectively.

The System has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of the System should be included within its financial reporting entity. The criteria include, but are not limited to, whether the System exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships.

Based primarily upon the criteria of financial interdependency and ability to significantly influence operations and accountability for fiscal matters, the System has included the Social Security Contribution Fund in its combined financial statements.

(2) Plan Description

The System is the administrator of a single-employer public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its employees. At June 30, 1992 and 1991, the number of participating state agencies, boards and commissions totaled:

	1992	1991
State agencies	43	42
State boards and commissions	51	51
Total	94	93

At June 30, 1992 and 1991 the System Trust Fund membership consisted of:

	1992	1991
Retirees and beneficiaries		
currently receiving benefits:		
Retirement annuities	28,501	24,283
Survivors' annuities	8,951	8,819
Disability benefits	1,559	1,583
	39,011	34,685
Inactive employees entitled		
to benefits but not yet		
receiving them	2,415	2,291
Total	41,426	36,976
Current Employees:		
Vested:		
Coordinated with Social Security	36,997	37,648
Noncoordinated	5,286	7,248
Nonvested:		
Coordinated with Social Security	33,713	34,797
Noncoordinated	1,198	1,330
Total	77,194	81,023

Operation of the System Trust Fund and the direction of its policies are the responsibility of the Board of Trustees of the System.

(a) Eligibility and Membership

Membership is automatic for most state employees who are not eligible for another state-sponsored retirement plan. All persons entering state service, except those in positions subject to membership in other state sponsored retirement systems, persons employed after June 30, 1979 as public service employment program participants under the Federal CETA program, and enrollees in the Illinois Young Adult Conservation Corps, become members of the System upon completion of six months service. Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System.

(b) Contributions

Participating members contribute specified percentages of their salaries for retirement annuities and survivors' annuities. Contributions are excluded from gross income for Federal and State income tax purposes. The total contribution rate is 4% if the member is coordinated with Social Security and 8% if the member is not coordinated. Certain employment categories which are eligible for benefits under alternative formulas contribute at the rate of 5 1/2% or 9 1/2 % depending upon whether or not the employee is coordinated with Social Security. Participants' contributions are fully refundable, without interest, upon withdrawal from state employment. Effective January 1, 1992, the State of Illinois initiated an employer pickup of employee retirement contributions for most state employees. The amount of the pickup is dependent upon the contribution rates specified above, however, the contributions made on behalf of the member are included in the individual member's account. The State of Illinois is obligated to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Article 14 of the Illinois Pension Code (Code) and all administrative expenses of the System Trust Fund to the extent specified in the Code.

(c) Benefits

The System is governed by Article 14 of the Code. Vesting and benefit provisions under the System Trust Fund are defined in the Code. Employees who retire at or after age 60 with 8 years of credited service (or at age 55 with at least 30 years of credited service with reduced benefits) are entitled to an annual retirement benefit, payable monthly for life, in an amount based upon final average compensation and credited service. Employees with 35 years of credited service may retire at any age with full benefits. Final average compensation for retirement and survivors' annuities, is the employee's average salary, during a 48 consecutive month period within the last 120 months of service in which the total compensation was the highest. State policemen use their final rate of pay for the final average compensation.

Occupational and nonoccupational (including temporary) disability benefits are available through the System Trust Fund. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service with the System Trust Fund. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of state employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System Trust Fund. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

(3) Description of the Contribution Fund

The Contribution Fund was established pursuant to the 1951 Social Security Enabling Act, Article 21 of the Illinois Pension Code. It is a special fund in the State Treasury which serves as a clearinghouse account for the collection and transmittal of federal social security contributions of participating state employees and employing agencies and political subdivisions.

Effective January 1, 1987, the responsibility for the collection and transmittal of Social Security contributions for state agencies and participating state employees was transferred from the System to the Office of the Comptroller of the State of Illinois. As of that same date, political subdivisions of the state became responsible for their own remittance of social security contributions to the federal government. The balances in this fund are being maintained for final settlement of open years.

(4) Summary of Significant Accounting Policies and Plan Asset Matters

(a) Basis of Accounting - System Trust Fund

The financial transactions of the System Trust Fund are recorded on the accrual basis of accounting and in conformity with generally accepted accounting principles. Employee and employer contributions are recognized as revenues in the period in which employee services are performed.

(b) Method Used to Value Investments

The System Trust Fund retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System Trust Fund. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System Trust Fund.

Investments are managed by the ISBI pursuant to Article 22A of the Illinois Pension Code and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System Trust Fund's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Illinois Revised Statutes Chapter 108 1/2, Article 22A-112. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires certain financial statement disclosure of deposits and investments, such as the disclosure of carrying amounts by type of investment and classification into one of three categories based upon credit risk. Investments in pools managed by other governmental agencies, in general, are to be disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form.

The System Trust Fund transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system.

The ISBI Board participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI Board receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1992 and 1991 the ISBI Board had outstanding loaned investment securities having a market value of approximately $344,993,007 and $313,109,467 respectively, against which it had received collateral of approximately $352,913,054 and $329,552,739 respectively.

The System Trust Fund owns approximately 93.7% of the ISBI Commingled Fund as of June 30, 1992.

Following are the ISBI investments, as categorized in the ISBI annual financial report. They are categorized to indicate the level of risk assumed by the ISBI Board at year end. Category I includes investments that are insured or registered or for which the securities are held by the master custodian in the ISBI Board's name. Category II includes uninsured and unregistered investments for which the securities are held by the master custodian in the ISBI Board's name. Category III includes uninsured and unregistered investments for which the securities are held by an agent of the master custodian but not in the ISBI Board's name.

	Category I	Category II	Category III	Cost	Market Value
U.S. Government and Agency Obligations	$ 543,839,646	$ -	$ -	$ 543,839,646	$ 571,466,100
Foreign Obligations	27,315,635	-	-	27,315,635	28,117,356
Foreign Equity Securities	223,701,749	-	-	223,701,749	221,817,510
Corporate Obligations	750,688,012	-	-	750,688,012	786,650,074
Convertible Bonds	69,310,839	-	-	69,310,839	71,920,483
Common Stock & Equity Funds	1,137,385,198	-	-	1,137,385,198	1,404,854,602
Convertible Preferred Stock	16,388,418	-	-	16,388,418	18,796,336
Preferred Stock	10,352,924	-	-	10,352,924	5,527,737
Money Market Instruments	231,800,369	-	-	231,800,369	231,088,936
SUBTOTAL	$ 3,010,782,790	$ -	$ -		
Non-categorized Assets:					
Real Estate Pooled Funds				317,107,108	325,963,498
Non-marketable Securities				128,411,196	178,844,300
Other Assets, Less Liabilities				20,886,434	20,886,434
Net Assets				$ 3,477,187,528	$ 3,865,933,366

(c) Fixed Assets

Expenditures for fixed assets are capitalized and depreciated over their estimated useful lives.

(d) Actuarial Experience Review

In accordance with Illinois Revised Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was performed as of June 30, 1990.

(e) Administrative Expenses

Expenses related to the administration of the System Trust Fund are budgeted and approved by the System's Board of Trustees. Administrative expenses for the Contribution Fund are appropriated annually by the State Legislature and are included in the financial statements of the System Trust Fund.

(f) Basis of Accounting - Contribution Fund

The collection and transmittal of federal Social Security contributions of participating state employees, employing agencies and political subdivisions through December 31, 1986, have been accounted for within the Contribution Fund on a modified accrual basis.

(5) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the State Employees' Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS.

At June 30, 1992 and 1991, the unfunded pension benefit obligation was $2,322,519,184 and $1,968,465,659 as follows:

	1992	1991
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	$3,047,923,522	$2,078,058,684
Terminated employees not yet receiving benefits	10,803,485	14,714,928
Current Employees:		
Accumulated employee contributions and interest	1,222,039,072	1,273,596,927
Employer-financed vested	1,160,994,685	1,432,302,881
Employer-financed nonvested	96,669,576	94,921,440
Inactive members - Accumulated contributions and interest	62,336,401	56,285,352
Total Pension benefit obligation	$5,600,766,741	$ 4,949,880,212
Net assets available for benefits, at cost (market value at June 30, 1992 - $3,640,759,666; 1991 - $3,307,041,904)	3,278,247,557	2,981,414,553
Unfunded pension benefit obligation	$2,322,519,184	$1,968,465,659

On July 30, 1991, Senate Bill 341 was signed by the governor. This bill provided for an employer pickup of a portion of the required member contributions: 4% of pay for regular employees, and 5 1/2% pay for alternative formula employees. The pickup was effective January 1, 1992, and the cost to the state was partially offset by lowered salary increases for fiscal 1992, which resulted in a $27,517,752 decrease in the accrued actuarial liability for active employees.

Senate Bill 45, approved in August of 1991, provided an early retirement incentive program under which employees who were active at any time during May, 1991, who either attained age 50 or accumulated 30 or more years of creditable service by December 31, 1991, could establish up to 5 years of creditable service by making an employee contribution to the System based on the member's final rate of compensation and on one-half of the retirement contribution rate in effect for the member on the date of withdrawal. There were 4,608 employees who retired under this program at an estimated cost to the System of $231,418,950.

House Bill 971, approved in November, 1991, provided members with the opportunity to purchase prior military service. Senate Bill 1951, approved in January 1991, provided a six month window during which refunds could be repaid at an interest charge of 2.5% per annum. Applications for repayment that were received in June of 1991 are reflected for the first time in this valuation. The combined impact of these bills resulted in a net increase in the actuarial liability of $44,632,309.

Changes in the reporting and processing of information provided to the actuary resulted in an increase of $18,488,469 in the actuarial liability for fiscal year 1992.

Public Act 86-1488, approved in January 1991, modified the date of application of the first automatic annual increase for widow and survivor annuities, added 3% automatic annual increases for disability benefits and occupational death annuities, and provided a six month window during which refunds could be repaid at the rate of 2.5% per annum. These changes had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by $17,743,150 during fiscal year 1991.

The measure is the same as the actuarial funding method used to determine contributions to the System Trust Fund, discussed in Note 6 below.

The pension benefit obligation was determined as part of an actuarial valuation at June 30, 1992. Significant actuarial assumptions used include (a) rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) salary increase rates vary by age, ranging from .5% to 4.7% attributable to merit, and 4.5% attributable to inflation for all employees, (c) 85% of employees are presumed to be married, (d) the female spouse is assumed to be three years younger than the male spouse, (e) mortality rates are based upon the 1971 Group Annuity Mortality Table projected in 1986, (f) it is assumed that terminated employees will not be rehired, and (g) the rate of turnover without vested benefits assumes a high scale at younger age levels, becoming progressively lower as age advances.

(6) Contributions Required and Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System Trust Fund is performed by the System's actuarial consultants in order to determine the amount of contributions required from the State of Illinois. For fiscal years 1992 and 1991, the actuary has used the projected unit credit actuarial method for determining the proper employer contribution rate and amount. The Board certified actuarial required contribution rates for fiscal years 1992 and 1991, were 4.74% and 4.72%, respectively.

The Illinois General Assembly appropriated the employer's contribution for the legislatively funded agencies at 3.95% for fiscal year 1992 and 4.15% for fiscal year 1991. State agencies which do not receive state appropriated funds for their share of employer retirement contributions contribute at the Board certified rate. It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the rate certified by the Board of Trustees.

Based upon the Board certified rate of 4.74%, the total amount of employer contributions required for the fiscal year ended June 30, 1992 amounted to $115,642,159. The total amount of employer contributions made was $98,532,783 (normal cost - $71,532,239, amortization of unfunded accrued actuarial liability - $27,000,544) thereby resulting in an underfunding of $17,109,376.

Schedule of Contributions Required and Contributions Made
(in thousands)

	1992	1991	1990	1989	1988
Covered Payroll	$ 2,439,708	$ 2,461,352	$ 2,270,303	$ 2,106,121	$ 1,953,960
Employer Contributions	$ 98,532	$ 115,980	$ 107,938	$ 98,472	$ 99,991
Actual Employer Contribution Rate	4.04%	4.71%	4.75%	4.68%	5.12%
Board of Trustees Recommended Contribution Rate	4.74%	4.72%	6.2%	6.3%	7.24%
Employee Contributions	$ 141,863	$ 120,263	$ 110,110	$ 101,805	$ 95,928
Employee Contribution Rate (Average)	5.81% *	4.89%	4.85%	4.83%	4.91%

*The average employee contribution rate increased substantially due to the volume of optional service payments received for the purchase of military service and the ERI program.

Beginning with the fiscal year which ended in 1990, the state's contribution was scheduled to be increased incrementally over a seven year period so that by the fiscal year ending June 30, 1996, the minimum contribution to be made by the state would be an amount that, when added to other sources of employer contribution, will be sufficient to meet the normal cost and amortize the unfunded liability over 40 years as a level percentage of payroll, determined under the projected unit credit actuarial cost method. The state contribution, as a percentage of the applicable employee payroll, was scheduled to be increased in equal, annual increments over the seven year period, until the funding requirements, specified above, are met.

Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the standardized measure of the pension obligation discussed in Note 5.

On July 30, 1991, Senate Bill 341 was signed by the governor. This bill provided for an employer pickup of a portion of the required member contributions: 4% of pay for regular employees, and 5 1/2% pay for alternative formula employees. The pickup was effective January 1, 1992, and the cost to the state was partially offset by lowered salary increases for fiscal 1992, which resulted in a $27,517,752 decrease in the accrued actuarial liability for active employees.

Senate Bill 45, approved in August of 1991, provided an early retirement incentive program under which employees who were active at any time during May, 1991, who either attained age 50 or accumulated 30 or more years of creditable service by December 31, 1991, could establish up to 5 years of creditable service by making an employee contribution to the System based on the member's final rate of compensation and on one-half of the retirement contribution rate in effect for the member on the date of withdrawal. There were 4,608 employees who retired under this program at an estimated cost to the System of $231,418,950.

House Bill 971, approved in November, 1991, provided members with the opportunity to purchase prior military service. Senate Bill 1951, approved in January 1991, provided a six month window during which refunds could be repaid at an interest charge of 2.5% per annum. Applications for repayment that were received in June of 1991 are reflected for the first time in this valuation. The combined impact of these bills resulted in a net increase in the actuarial liability of $44,632,309.

Public Act 86-1488, approved in January 1991, modified the date of application of the first automatic annual increase for widow and survivor annuities, added 3% automatic annual increases for disability benefits and occupational death annuities, and provided a six month window during which refunds could be repaid at the rate of 2.5% per annum. These changes had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by $17,743,150 during fiscal year 1991.

(7) Historical Trend Information

Historical trend information designed to provide information about the System Trust Fund's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 28 - 29.

(8) Administrative Expenses

A summary of the administrative expenses of the System for fiscal years 1992 and 1991 are as follows:

	1992		1991	
	System Trust Fund	Contribution Fund	System Trust Fund	Contribution Fund
Personal services	$1,933,008	$ 26,514	$ 1,869,680	$ 26,364
Employer retirement pickup	37,366	533	-	-
Retirement contributions	91,803	1,000	89,200	1,100
Social Security contributions	136,596	1,943	128,806	1,951
Group insurance	237,164	-	124,240	-
Contractual services	718,941	23,802	651,981	27,075
Travel	33,218	1,260	39,350	1,470
Commodities	31,558	397	31,527	92
Printing	39,903	95	45,445	-
Electronic Data Processing	634,880	723	532,190	784
Telecommunications	53,389	705	50,759	900
Automotive	7,888	-	6,521	-
Depreciation	233,031	-	126,218	-
Other	40,548	-	77,619	-
Total	$4,229,293	$ 56,972	$ 3,773,536	$ 59,736

The System's fiscal years 1992 and 1991 employer retirement contribution requirement represented .10% and .09% respectively of total contributions required of all state agency/department employers participating in the SERS. Pertinent financial information relating to the System's participation in SERS is summarized as follows:

- The System's total and covered payrolls for fiscal year 1992 and 1991 were $2,336 thousand and $2,219 thousand respectively.
- The System's (i.e., the employers') actuarially determined contribution requirements for fiscal years 1992 and 1991 were $111 thousand and $105 thousand, respectively, or 4.74% and 4.72% of the System's covered payrolls. For fiscal year 1992, the System's and employee contributions actually made were $111 thousand and $96 thousand, respectively, which represents 4.74% and 4.1%, respectively, of the current year covered payroll. For fiscal year 1991, the System's and employee contributions actually made were $105 thousand and $92 thousand, respectively, which represent 4.72% and 4.2%, respectively, of the covered payroll.

Effective January 1, 1992, the System began making payment of the required employee retirement contributions on behalf of its employees. This "pickup" of employee retirement contributions was included in the fiscal year 1992 operating budget approved by the System's Board of Trustees, and was, in part, paid in lieu of a salary increase.

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System. Substantially all state employees including the System's employees may become eligible for post employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 1992. However, the cost for the state as a whole for all state agencies/departments for dependent health, dental and life insurance for annuitants and their dependents approximated $119.8 million for fiscal year 1992. Cost information by individual state agency is not available. Payments are made on a pay as you go basis. The System is not the administrator of any of the other post employment benefits described above.

(9) Property and Equipment

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, (3) automobiles and certain electronic data processing equipment - 3 years, and (4) building - 30 years.

Land is carried at its original cost, including applicable legal fees, surveying costs, etc.

A summary of the changes in fixed assets for 1992 and 1991 is as follows:

	1992			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land Improvements	195,298	3,325	-	198,623
Building	3,166,920	42,000	-	3,208,920
Fixed Assets	1,139,596	63,281	(12,750)	1,190,127
Total	5,157,055	108,606	(12,750)	5,252,911
Accumulated Depreciation	(720,604)	(233,031)	11,992	(941,643)
Property and equipment, net	$ 4,436,451	$ (124,425)	$ (758)	$4,311,268

	1991			
	Beginning Balance	Additions	Deletions	Ending Balance
Land	$ 655,241	$ -	$ -	$ 655,241
Land Improvements	195,298	-	-	195,298
Building	3,141,538	25,382	-	3,166,920
Fixed Assets	974,222	218,222	(52,848)	1,139,596
Total	4,966,299	243,604	(52,848)	5,157,055
Accumulated Depreciation	(625,948)	(126,218)	31,562	(720,604)
Property and equipment, net	$ 4,340,351	$ 117,386	$ (21,286)	$4,436,451

(10) Accrued Compensated Absences

Employees of the System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. The value of accrued compensated absences for System employees as of June 30, 1992 and 1991 was $455,933 and $416,143, respectively.

(11) Analysis of Changes in Fund Balances - Reserved

The System Trust Fund maintains three reserve accounts which, when combined, comprise the total reserved fund balance. The reserves are defined as follows:

(a) Participants' contributions - accounts for assets contributed by each participant,

(b) Interest accumulations - accounts for interest credited to each participant's account, and

(c) Other future benefits - accounts for all assets not otherwise specifically provided for in items (a) and (b) above.

State Employees' Retirement System Trust Fund
Statements of Changes in Fund Balances (Reserved)
Years ended June 30, 1992 and 1991

	Participants' contributions	Interest accumulations	Other future benefits	Total Fund Balance
Balance at June 30, 1990	$ 823,025,513	$ 380,950,235	$1,591,591,362	$ 2,795,567,110
Add (deduct):				
Excess of revenue over expenses	102,817,359	-	83,030,084	185,847,443
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(28,153,235)	-	28,153,235	-
Interest credited to members' accounts	-	51,242,407	(51,242,407)	-
Balance at June 30, 1991	$ 897,689,637	$ 432,192,642	$1,651,532,274	$2,981,414,553
Add (deduct):				
Excess of revenue over expenses	116,482,327	-	180,350,677	296,833,004
Reserve transfers:				
Accumulated contributions of members who retired during the year, less contributions of annuitants returning to active status	(147,169,438)	-	147,169,438	-
Interest credited to members' accounts	-	(14,819,695)	14,819,695	-
Balance at June 30, 1992	$ 867,002,526	$ 417,372,947	$1,993,872,084	$3,278,247,557

Analysis of Funding Progress (in millions of dollars)

FY	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation**	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) − (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1985	$1,707.2	$2,830.8	60.3%	$1,123.6	$1,569.5	71.6%
1986	1,974.1	3,082.8	64.0	1,108.7	1,713.8	64.7
1987	2,225.9	3,304.2	67.4	1,078.3	1,825.2	59.1
1988	2,381.8	3,490.7	68.2	1,108.9	1,954.0	56.8
1989	2,580.2	3,752.1	68.8	1,171.9	2,106.1	55.6
1990	2,795.6	4,538.1	61.6	1,742.5	2,270.3	76.8
1991	2,981.4	4,949.9	60.2	1,968.5	2,461.4	80.1
1992	3,278.2	5,600.8	58.5	2,322.6	2,439.7	95.2

*At cost

**Pension Benefit Obligation information is not available for years prior to 1985.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System Trust Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System Trust Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

Revenues by Source and Expenses by Type

Revenues by Source

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Sub Total	General Revenue Fund Appropriations, Less balances Lapsed	Total
1983	$ 72,371,246	$ 71,846,403	$192,573,257	$336,790,906	$149,002	$336,939,908
1984	73,442,196	86,464,279	150,170,315	310,076,790	168,700	310,245,490
1985	77,830,806	94,456,693	101,754,931	274,042,430	174,482	274,216,912
1986	84,563,536	102,213,693	240,235,534	427,012,763	186,885	427,199,648
1987	90,096,279	109,559,940	226,929,603	426,585,822	168,326	426,754,148
1988	95,928,239	99,990,922	148,802,057	344,721,218	127,288	344,848,506
1989	101,805,417	98,471,993	199,452,398	399,729,808	97,958	399,827,766
1990	110,109,685	107,938,094	213,139,724	431,187,503	69,142	431,256,645
1991	120,263,354	115,979,568	180,520,373	416,763,295	59,736	416,823,031
1992	141,862,797	98,532,783	344,237,850	584,633,430	56,972	584,690,402

Expenses by Type

FY Ended June 30	Benefits	Contribution Refunds and Transfers	Administrative Expenses, System Trust Fund	Sub Total	Administrative Expenses, Contribution Fund	Total
1983	$111,852,846	$14,009,169	$2,290,492	$128,152,507	$149,002	$128,301,509
1984	120,996,071	14,145,496	2,428,623	137,570,190	168,700	137,738,890
1985	132,316,478	13,240,326	2,552,452	148,109,256	174,482	148,283,738
1986	143,548,518	13,780,843	2,848,181	160,177,542	186,885	160,364,427
1987	159,614,328	12,182,099	3,000,932	174,797,359	168,326	174,965,685
1988	173,644,549	11,983,814	3,169,935	188,798,298	127,288	188,925,586
1989	185,354,303	12,602,555	3,380,170	201,337,028	97,958	201,434,986
1990	199,606,912	12,325,179	3,887,148	215,819,239	69,142	215,888,381
1991	215,290,386	11,851,930	3,773,536	230,915,852	59,736	230,975,588
1992	266,652,372	16,918,761	4,229,293	287,800,426	56,972	287,857,398

Analysis of Employer Contributions
Fiscal Year 1983 through 1992

Fiscal Year	(1) Board Approved Rate (A)	(2) Annual Covered Payroll	(3) Employer Contributions Required (1 x 2)	Employer Contribution Made — (4) Employer Contr. (B)	(5) State Pension (C)	(6) Senate Res. No. 33 (D)	(7) Other (E)	(8) (4+5+6+7) Total	(8-3) (Deficiency) of Contrib. Made Over Contr. Req.	(8 ÷ 2) Employer Contrib. as a % of Covered Payroll
1983	5.550%	$1,378,735,000	$ 76,519,793	$ 67,421,803	$ 1,838,200	$ 2,586,400	$ -	$ 71,846,403	$ (4,673,390)	5.21%
1984	6.400	1,437,546,000	92,002,944	81,358,279	2,378,000	2,728,000	-	86,464,279	(5,538,665)	6.01
1985	8.090	1,569,532,000	126,975,139	89,482,193	2,378,500	2,596,000	-	94,456,693	(32,518,446)	6.02
1986	7.532	1,713,755,000	129,080,027	97,741,393	2,130,000	2,342,300	-	102,213,693	(26,866,334)	5.96
1987	8.400	1,825,196,000	153,316,464	105,095,840	2,215,500	2,248,600	-	109,559,940	(43,756,524)	6.00
1988	7.240	1,953,960,000	141,466,704	97,725,922	1,673,700	591,300	-	99,990,922	(41,475,782)	5.12
1989	6.300	2,106,121,000	132,685,623	96,564,193	1,907,800	-	-	98,471,993	(34,213,630)	4.68
1990	6.200	2,270,303,000	140,758,786	104,019,494	2,030,000	-	1,888,600	107,938,094	(32,820,692)	4.75
1991	4.720	2,461,352,000	116,175,814	109,930,868	6,048,700	-	-	115,979,568	(196,246)	4.71
1992	4.740	2,439,708,000	115,642,159	96,459,883	2,072,900	-	-	98,532,783	(17,109,376)	4.04

(A) = For fiscal year 1985, the contribution rate shown is the minimum rate recommended by the actuarial consultants. The actual Board approved rate was 5.8%. For all other years presented, the Board approved rate was at least equal to or greater than the minimum contribution rate recommended by the actuaries.

(B) = The System Trust Fund recognizes revenue based upon either the Board approved rate or the state appropriated rate, as appropriate.

(C) = The System Trust Fund receives an annual appropriation from the State Pension Fund. The State Pension Fund receives proceeds from the sale of abandoned and unclaimed property.

(D) = In fiscal year 1983, House Amendment No. 1 to Senate Bill 177 was adopted by the state legislature. This bill reduced the dollar amount appropriated for the employer's share of retirement contributions. Senate Joint Resolution No. 33 provided that the System Trust Fund would be repaid the amount of the Senate Bill 177 reductions at the rate of 20% per year over the succeeding five fiscal years, including interest at 6% per annum. Final payment was received in FY 1988.

(E) = In fiscal year 1990, the System Trust Fund received an additional appropriation from the State of Illinois for the employer contribution.

Combining Balance Sheets
June 30, 1992 and 1991

	1992			1991		
Assets	Pension Trust Fund State Employees' Retirement System	Agency Fund Social Security Contribution	Total	Pension Trust Fund State Employees' Retirement System	Agency Fund Social Security Contribution	Total
Cash	$12,413,156	-	$12,413,156	$18,682,979	$ -	$18,682,979
Cash, restricted for Social Security remittances	-	812,879	812,879	-	944,799	944,799
Receivables:						
Contributions receivable:						
Participants	4,502,477	-	4,502,477	4,823,032	-	4,823,032
Employing State Agencies	3,290,664	-	3,290,664	6,469,173	-	6,469,173
Other accounts receivable	753,394	-	793,394	757,946	-	757,946
	8,546,535	-	8,546,535	12,050,151	-	12,050,151
Investments	3,257,144,759	-	3,257,144,759	2,949,573,783	-	2,949,573,783
Property and equipment, net of accumulated depreciation	4,311,268	-	4,311,268	4,436,451	-	4,436,451
Total Assets	$3,282,415,718	$812,879	$3,283,228,597	$2,984,743,364	$944,799	$2,985,688,163
Liabilities and Fund Balance						
Benefits payable	$1,396,870	-	$1,396,870	$1,484,896	$ -	$1,484,896
Refunds payable	452,602	-	452,602	267,894	-	267,894
Administrative expenses payable	684,529	-	684,529	677,736	-	677,736
Participants' deferred service credit accounts	1,634,160	-	1,634,160	898,285	-	898,285
Unremitted Social Security contributions	-	101,879	101,879	-	436,539	436,539
Amounts held for Social Security remittances	-	711,000	711,000	-	508,260	508,260
Total Liabilities	$4,168,161	$812,879	$4,981,040	$3,328,811	$944,799	$4,273,610
Fund Balance						
Actuarial present value of credited projected benefits	5,600,766,741	-	5,600,766,741	4,949,880,212	-	4,949,880,212
(Less) unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(2,322,519,184)	-	(2,322,519,184)	(1,968,465,659)	-	(1,968,456,659)
Total Fund Balance	$3,278,247,557	-	$3,278,247,557	$2,981,414,553	$ -	$2,981,414,553
Total Liabilities & Fund Balance	$3,282,415,718	$812,879	$3,283,228,597	$2,984,743,364	$944,799	$2,985,688,163

Social Security Contribution Fund
Statements of Changes in Assets and Liabilities
Years Ended June 30, 1992 and 1991

	1992				1991			
Assets	Balance July 1, 1991	Additions	(Deductions)	Balance June 30, 1992	Balance July 1, 1990	Additions	(Deductions)	Balance June 30, 1991
Cash, restricted for Social Security remittances	$944,799	$282,284	$(414,204)	$812,879	$599,415	$385,207	$(39,823)	$944,799
Liabilities								
Unremitted Social Security contributions	$436,539	$2,080	$(336,740)	$101,879	$223,636	$212,984	$(81)	$436,539
Amounts held for Social Security remittances	508,260	202,740	-	711,000	375,779	132,481	-	508,260
	$944,799	$204,820	$(336,740)	$812,879	$599,415	$345,465	$(81)	$944,799

SYSTEM TRUST FUND — SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 1992 and 1991

	1992	1991
Contributions:		
Participants	$117,435,765	$116,775,047
Repayments of contributions refunded	1,334,874	1,557,177
Interest received from participants	4,869,231	1,931,130
ERI service purchase	18,222,927	-
Total participants contributions	$141,862,797	$120,263,354
Employing state agencies	$ 96,459,883	$109,930,868
State Pension Fund appropriation	2,072,900	6,048,700
Total state contributions and appropriations	98,532,783	$115,979,568
Investments:		
Net investment income	$190,811,723	$159,804,265
Interest earned on cash balances	666,874	831,847
Net realized gain on sale of investments	152,759,253	19,884,261
Total investment revenue	$344,237,850	$180,520,373
Total Revenue	$584,633,430	$416,763,295

SYSTEM TRUST FUND — SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 1992 and 1991

	1992	1991
Cash balance, beginning of year	$ 18,682,979	$ 11,187,478
Receipts:		
Member contributions	139,235,944	116,770,488
Employer contributions	99,677,842	106,325,812
State Pension Fund contribution	2,072,900	6,048,700
Transfers from Illinois State Board of Investment	50,000,000	18,000,000
Interest income on cash balance	632,936	888,482
Claims receivable payments	933,336	781,573
Installment payments - prior service credit	1,639,093	1,190,383
Other	189,610	135,507
Total cash receipts	$294,381,661	$250,140,945
Disbursements:		
Annuity payments:		
Retirement annuities	$215,693,427	$166,566,596
Widow's annuities	2,739,418	2,810,129
Survivors' annuities	22,047,515	20,508,955
Death benefits	8,852,982	9,185,371
Disability benefits	15,950,395	14,942,334
Refunds	17,213,634	12,138,207
Administrative expenses	4,154,113	4,493,852
Transfers to Illinois State Board of Investment	14,000,000	12,000,000
Total cash disbursements	$300,651,484	$242,645,444
Cash balance, end of year	$ 12,413,156	$ 18,682,979

REVENUES

Total revenue of $584.6 million for FY 1992 was a $167.9 million increase from the FY 1991 level of $416.7 million. Net income from investments and net realized gains on sales of investments increased substantially from the prior fiscal year.

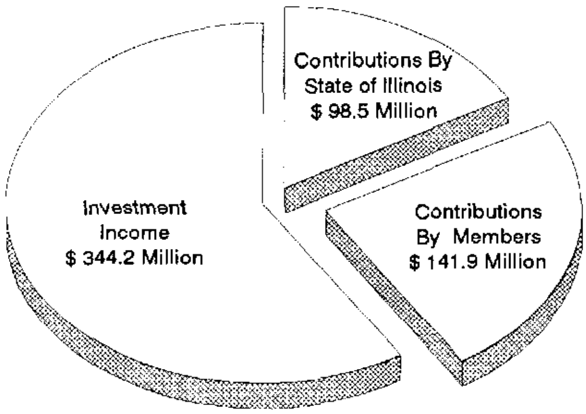
Revenue Source	FY 92 (Millions)	FY 91 (Millions)	Increase/(Decrease) (Amount)	(Percentage)
Member Contributions	$ 141.9	$ 120.2	$ 21.7	18.1%
State Contributions	98.5	116.0	(17.5)	(15.1)
Investment Income	344.2	180.5	163.7	90.7
Total	$ 584.6	$ 416.7	$ 167.9	40.3%

There were 3,829 fewer active members as of June 30, 1992 than on June 30, 1991. This decrease of 2.4% in membership and lower than average wage increases resulted in a decrease of .9% in wages subject to retirement contributions. State contributions decreased by 15.1% ($17.5 million). Member contributions were $141.9 million which is a $21.7 million increase from FY 1991. The average employee contribution rate increased substantially due to the volume of optional service payments received for the purchase of military service and the ERI program. As shown in the table below, the average rate of contributions by members in FY 1992 was 5.81% compared to 4.89% in FY 1991.

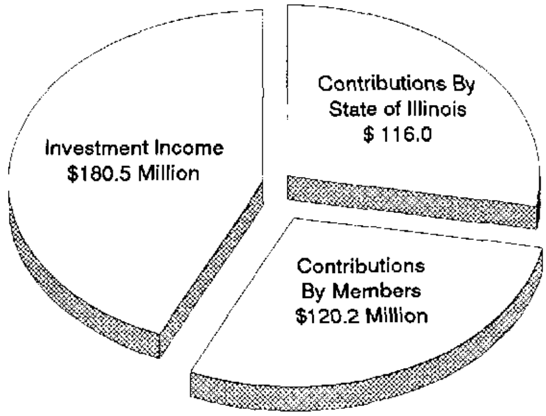
Active Membership	FY 92	FY 91	Increase/(Decrease) (Number/Amount)	(Percentage)
Coordinated Members	70,710	72,445	(1,735)	(2.4)%
Noncoordinated Members	6,484	8,578	(2,094)	(24.4)
Total Active Members	77,194	81,023	(3,829)	(4.7)%
Earnings Reported All Members (Millions)	$2,439.7	$2,461.4	$ (21.7)	(.9)%
Average Rate of Contributions All Members	5.81%	4.89%		

The System has approximately $844,000 of arrearages and overpayments as of June 30, 1992. There were 398 past due accounts with arrearages, 166 claim overpayments and 5 refund overpayments. The System employs several different methods for the collection of its outstanding receivables. These methods include collections by the System, use of the office of the Comptroller's involuntary offset system, contracting with private collection firms and legal action through the office of the Attorney General.

REVENUES BY SOURCE 1992
TOTAL REVENUES
$ 584.6 MILLION



REVENUES BY SOURCE 1991
TOTAL REVENUES
$ 416.7 MILLION



Gross investment income for 1992 of $202,537,271, less the Investment Board's administrative expenses of $11,725,548, resulted in net investment income of $190,811,723. This amount, when combined with the net realized gain on sale of investments of $152,759,253, provided net revenue from investments of $343,570,976. Transfers of funds to the Illinois State Board of Investment amounted to $14,000,000 and transfers from the Board of $50,000,000 resulted in a net reduction in investments of $36,000,000. The balance of investments at cost increased by $307,570,976 from June 30, 1991 through June 30, 1992. The following table shows a comparison of investment operations for FY 1992 and FY 1991.

	1992	1991	Increase/(Decrease) (Amount)	Increase/(Decrease) (Percentage)
Balance at beginning of year, at cost	$ 2,949,573,783	$ 2,775,885,256	$ 173,688,527	6.3%
Cash remitted to (from) investment (net)	(36,000,000)	(6,000,000)	(30,000,000)	N/A
Investment income:				
Commingled Fund income	202,537,271	170,533,511	32,003,760	18.8
Less Expenses	(11,725,548)	(10,729,245)	(996,303)	9.3
Net investment income	190,811,723	159,804,266	31,007,457	19.4
Distributed Net Realized Gain/ (Loss) on Sale of Investments	152,759,253	19,884,261	132,874,992	N/A
Balance at end of year, at cost	$ 3,257,144,759	$ 2,949,573,783	$ 307,570,976	10.4
Market value	$ 3,619,656,868	$ 3,275,201,134	$ 344,455,734	10.5%

In addition, interest on the average balance in the System Trust Fund's account for FY 1992 was $666,874 compared to $831,847 during FY 1991.

EXPENSES

The number of members receiving retirement annuities on June 30, 1992 was 17.4% above the June 30, 1991 level, primarily reflecting the effects of the early retirement incentive (ERI). The cost of these annuities increased by 29.5% over the FY 1991 level. Higher salaries for current retirees, post retirement increases granted each January 1, and an increase in the minimum retirement annuity also resulted in costs rising at a rapid pace. Survivors' annuities increased at a near normal rate of 1.5% in number with 6.4% increase in dollar costs. Disability recipients decreased by 1.5% while disability benefits increased in dollar amount by 7.2%.

	FY 92 (Millions)	FY 91 (Millions)	Increase/(Decrease) (Amount)	(Percentage)
Retirement annuities	$215.5	$166.4	$49.1	29.5%
Survivors' annuities	25.1	23.6	1.5	6.4
Disability benefits	17.8	16.6	1.2	7.2
Lump sum death benefits	8.3	8.7	(.4)	(4.6)
Refunds (Including Transfers)	16.9	11.8	5.1	43.2
Administrative expense	4.2	3.8	.4	10.5
TOTAL EXPENSES	$287.8	$230.9	$ 56.9	24.6%

NUMBER OF RECURRING BENEFIT PAYMENTS

	FY Ended June 30, 1991	New claims Processed During FY 92	Benefits Ceased During FY 92	FY Ended June 30, 1992	Increase/(Decrease) (Amount)	(Percentage)
Retirement	24,283	5,270	(1,052)	28,501	4,218	17.4%
Survivors'	8,819	564	(432)	8,951	132	1.5
Disability	1,583	2,057	(2,081)	1,559	(24)	(1.5)
TOTALS	34,685	7,891	(3,565)	39,011	4,326	12.5%

Lump sum death benefits are primarily refunds of member contributions and will vary from year to year. Refunds to members have been decreasing in the past few years; however, the number of refunds processed (i.e. widows/survivors contributions and alternative formula refunds) increased substantially as a result of the ERI program. Employees who retired without a qualified widow/survivor and those who contributed to the System under the alternative formulas, but were not entitled to receive the higher benefits due to service requirements, received refunds of their excess contributions.

RESERVES

As of June 30, 1992, the funds available for payment of current and future benefits were $3,278.2 million as shown in the following schedule:

Assets	FY92 (Millions)	FY91 (Millions)	Increase/ (Decrease)
Cash	$ 12.4	$ 18.7	$ (6.3)
Receivables (less payables)	4.4	8.7	(4.3)
Investments	3,257.1	2,949.6	307.5
Fixed Assets (net of accumulated depreciation)	4.3	4.4	(.1)
NET ASSETS	$ 3,278.2	$ 2,981.4	$ 296.8

Total System Trust Fund revenues for FY 1992 of $584.6 less expenditures of $287.8 million resulted in a net increase to reserves of $296.8 million.

Reserves	FY92 (Millions)	FY91 (Millions)	Net Increase
Member Contributions	$ 867.0	$ 897.7	$ (30.7)
Interest Accumulations	417.4	432.2	(14.8)
Future Operations	1,993.8	1,651.5	342.3
NET ASSETS	$ 3,278.2	$ 2,981.4	$ 296.8

Member contributions transferred to the Reserve for Future Operations due to retirement or death of active members during the year amounted to $147.2 million.

SOCIAL SECURITY

On September 15, 1953, the State of Illinois and the Federal Government signed an agreement making social security coverage available to public employees in Illinois. In addition to extending new coverage, the System, as State Administrator, was responsible for collecting and transmitting social security contributions to the U.S. Department of Health and Human Services for approximately 1,600 towns, villages and other political entities. Members of two retirement systems in the State of Illinois, the Illinois Municipal Retirement Fund (IMRF) and the State Employees' Retirement System (SERS), are also covered by social security. During fiscal year 1992, the Social Security Unit receipted slightly more than $282,000 of contributions from various political subdivisions and refunds from the federal government. In addition, the Unit vouchered approximately $193,000 to political subdivisions as refunds of contribution overpayments and $221,000 to the State of Illinois and the U.S. Treasury. Due to the passage of federal legislation which mandated that state and local government employers conform to the same remittance schedule as private employers, the responsibility for the collection and remittance of Social Security and Medicare taxes was transferred from this agency to the Office of the Comptroller of the State of Illinois effective, January 1, 1987. Adjustments to Social Security or Medicare taxes for wages paid thru December 31, 1986, continue to be processed through the Contribution Fund. Subsequent to January 1, 1987, any adjustments to Social Security or Medicare taxes are reported through the Office of the Comptroller.

The Social Security Division has a staff of one full-time employee. Data processing and accounting services are performed by other divisions of the System on a contractual basis. Expenses are appropriated by the General Assembly and subsequently recovered from the reporting entities on a pro-rated basis. The total amount of expenses appropriated from the General Revenue Fund for the administration of the Contribution Fund was $56,972 and $59,736 for fiscal years 1992 and 1991, respectively.

ACTUARIAL SECTION

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Wyatt

October 20, 1992

Board of Trustees and Executive Secretary
State Employees' Retirement System of Illinois
P.O. Box 19255
2101 South Veteran Parkway
Springfield, IL 62794-9255

ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the assets and liabilities of the State Employees' Retirement System of Illinois as of June 30, 1992.

Since the last valuation Senate Bill 45, approved in July 1991, provided an Early Retirement Incentive program under which active employees who retired during a seven month window, after attaining age 50 or accumulating 30 years of creditable service, could purchase up to 5 additional years of creditable service. In excess of 4,600 employees retired under this program. Senate Bill 341, also approved in July 1991, provided for an employer pickup of a portion of the required member contributions, effective January 1, 1992. House Bill 971 provided members with the opportunity to purchase prior military service. Senate Bill 1951, approved in January 1991, provided a six month window during which refunds could be repaid at an interest charge of 2.5% per annum. Applications for repayment that were received in June of 1991 are reflected for the first time in this valuation. These legislative changes result in an increase of approximately 5.3% in the accrued actuarial liability (AAL).

Pursuant to the law establishing the System, the actuary shall investigate the experience under the System at least once every five years. The Wyatt Company, as the actuary, completed such a review for the five year period ending June 30, 1990 and recommended assumptions which were adopted by the Board effective June 30, 1990, and which were used for the current valuation. We believe that, in the aggregate, the current assumptions relate reasonably to the past and anticipated experience of the plan.

The financing objective of the System is to accumulate assets equal to the value of the portion of all future benefits that is based on members' service as of the valuation date. A contribution rate has been determined using the Projected Unit Credit Cost Method, providing for the normal cost plus an amortization of the unfunded accrued actuarial liability as required by Chapter 108-1/2, Par. 14-131(f)

Wyatt

of the Illinois Pension Code. Future normal cost rates are expected to remain constant, as a percentage of payroll, while the amortization contribution rate will increase in equal annual increments from the 1993 fiscal year rate until the 1996 fiscal year rate is reached. The total contribution rate can thus be expected to rise gradually until June 30, 1996, remain level until June 30, 2035, and then drop to a constant normal cost rate. Employer contributions in recent years have been less than that required to meet this financing objective.

For purposes of determining contribution rates, assets have been valued at cost as reported by the Illinois State Board of Investment. The liabilities have been valued based on employee data which is supplied by the administrative staff of the System and verified by the System's auditor. We have made additional tests to ensure its accuracy.

In our opinion, the following schedule of valuation results fairly presents the financial condition of the State Employees' Retirement System of Illinois as of June 30, 1992. The contribution rate determined complies with the applicable law in force as of June 30, 1992.

THE WYATT COMPANY

By Kimberly A. Boxell
Kimberly A. Boxell
Associate Of The Society of Actuaries

By S. Lynn Hill
S. Lynn Hill
Consultant

By
Lloyd L. Nordstrom
Fellow Of The Society of Actuaries

INTRODUCTION

The System Trust Fund receives contributions from several sources which can be considered as employer contributions, with the largest source being the regular state appropriation. The System Trust Fund also receives an annual appropriation from the State Pension Fund.

Annually, the System's actuarial consultant prepares a valuation of the liabilities and reserves of the System Trust Fund in order to make a determination of the amount of contributions required from the state. In fiscal years 1992 and 1991, the actuary has determined the required employer contribution rate and amount using the projected unit credit cost method. Based upon the state's actual funding method described above, the System, in recent years, has not received the minimum actuarially determined employer contribution amount.

The employers' contribution amount, together with members' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial reserve requirements, pursuant to Article 14-131 of the Illinois Revised Statutes. The statutes define "actuarial reserves" as "An accumulation of funds in advance of benefit payments which will be sufficient with respect to each member and his beneficiaries, if any, to pay the prescribed benefits, computed according to the actuarial tables, without further contributions by or on behalf of the member."

The underfunding of employer contributions continues to place undue pressure on one of the other major sources of revenue to the System, namely income from investments, to consistently provide an increasing percentage of total fund revenue. In recent years, the higher than assumed rate of return on investments distorts the fact that employer contributions have not kept pace with prior, current, and future estimated benefit costs. For the fourth consecutive year, employee contributions have exceeded employer contributions to the System Trust Fund. This fact underscores the need for the development and implementation of a systematic and rational funding plan for the System.

In an attempt to address the pension funding dilemma, the state legislature passed S.B.95 in August, 1989, which provided for a standardized funding method (projected unit credit) and a specified term for the amortization of prior unfunded pension costs (40 years, level percentage of payroll). There is a seven-year phase in period of the required employer contributions to attain the 40-year amortization level.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

For fiscal years 1992 and 1991, a projected unit credit normal cost method is used. Under this method, the projected pension at retirement age is first calculated and the value thereof at the individual member's current or attained age is determined. The normal cost for the member for the current year is equal to the value so determined divided by the member's projected service at retirement. The normal cost for the plan for the year is the sum of the individual normal costs.

Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. For purposes of determining future employer contributions, however, the actuarial gains and losses are amortized over a 40-year period as a level percentage of payroll. The actuarial liability at any point in time is the value of the projected pensions at that time less the value of future normal costs.

For ancillary benefits for active members, in particular disability benefits, death and survivor benefits, termination benefits, and the post-retirement increments, the same procedure as outlined above is followed.

A description of the actuarial assumptions utilized for FY-92 and FY-91 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1989; all other assumptions were adopted June 30, 1990.

Mortality: 1986 Projected Experience Table, a table based on experience underlying the 1971 Group Annuity Mortality Table, without margins, with a projection for mortality improvements to 1986. Five percent of deaths amongst active employees are assumed to be in the performance of their duty.

Interest: 8% per annum, compounded annually.

Termination: Illustrative rates follow. It is assumed that terminated employees will not be rehired.

Age	Rate Males	Rate Females	Age	Rate Males	Rate Females
20	.188	.377	45	.038	.041
25	.126	.144	50	.032	.030
30	.085	.096	55	.030	.030
35	.062	.072	60	.030	.030
40	.047	.056	65	.030	.030

Salary Increases: Illustrative rates of increase per annum, compounded annually:

Age	Males & Females	Components Merit	Components Inflation	Age	Males & Females	Components Merit	Components Inflation
20	9.2%	4.7%	4.5%	45	6.7	2.2	4.5
25	8.7	4.2	4.5	50	6.2	1.7	4.5
30	8.2	3.7	4.5	55	5.7	1.2	4.5
35	7.7	3.2	4.5	60	5.2	.7	4.5
40	7.2	2.7	4.5	65	5.0	.5	4.5

Retirement Rates: *Listed below are rates of retirement that vary by age:*

Age	General Employees	Alternative Formula Employees*	Age	General Employees	Alternative Formula Employees*
50-54	– %	20%	63-64	15 %	20%
55-59	10	20	65	40	40
60	25	20	66-69	25	30
61	15	20	70	100	100
62	20	20			

*An additional 10% are assumed to retire in the year in which the employee completes 30 years of service. The rates apply only to employees who have fulfilled the service requirement necessary for retirement at any given age.

Assets: Assets available for benefits are valued at book value (cost).

Expenses: As estimated and advised by SERS staff, based on current expenses with an allowance for expected increases.

Marital Status: 85% of employees are assumed to be married.

Spouse's Age: The female spouse is assumed to be three years younger than the male spouse.

In addition to the above, other assumptions used include disability incidence, recovery from disability, mortality of disabled lives, remarriage rates, ages, and numbers of children and Social Security benefit levels.

VALUATION RESULTS

Actuarial Liability (Reserves)	FY-92	FY-91
For Annuitants:		
For Benefit Recipients:		
Retirement Annuities	$ 2,724,404,388	$ 1,765,612,090
Survivor Annuities	242,397,888	230,250,907
Disability Annuities	71,118,112	72,392,278
Deferred:		
Retirement Annuities	1,071,193	1,178,359
Survivor Annuities	8,931,941	8,625,050
Total	$ 3,047,923,522	$ 2,078,058,684
For Inactive Members:		
Eligible for Deferred Vested Pension Benefits	65,945,280	64,654,680
Eligible for Return of Contributions Only	7,194,606	6,345,600
Total	$73,139,886	$ 71,000,280
For Active Members	2,479,703,333	2,800,821,248
Actuarial Present Value of Credited Projected Benefits	$ 5,600,766,741	$ 4,949,880,212
Assets, Book Value (Cost)	3,278,247,557	2,981,414,553
Unfunded Actuarial Present Value of Credited Projected Benefits	$ 2,322,519,184	$ 1,968,465,659

* GLOSSARY OF PENSION TERMS:

1. ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS -
This value is defined in GASB Statement No. 5 as the pension benefit obligation (PBO), which is "a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date".

2. UNFUNDED ACTUARIAL PRESENT VALUE OF CREDITED PROJECTED BENEFITS -
This is the difference between the actuarial present value of credited projected benefits and the actuarial value of assets of the pension plan. It includes the unfunded prior and past service costs as well as normal costs not funded by the employer and actuarial gains and losses.

3. NORMAL COST -
This is the pension cost for service during the period as determined by an actuarial cost method.

4. PAST SERVICE COST -
At the inception of a plan, credit is often given to employees for services rendered before creation of the plan. Naturally, no contributions would have been made by the employer. Therefore, a cost has been incurred but not funded. This is called past service cost.

   Generally accepted accounting principles provide that these costs should be deferred and recognized over future periods. The logic to this follows from the presumption that the employer granted these pension benefits for past service because some future value from better employee morale and higher productivity will be obtained. Thus, past service costs are deferred and recognized over the expected period of benefit. The convention has been to amortize past service costs over a period of 40 years, which is the approximate working lifetime of employees.

   Past service costs can be amortized using a level dollar amount or a level percent of pay. Amortization payments are determined in the same way a mortgage payment is determined.

5. PRIOR SERVICE COSTS -
Pension plan benefits are often changed by amendments. When such a change gives credit for employee services rendered prior to the amendment, it gives rise to what are called prior service costs.

   These are treated like past service costs, that is, the amount is deferred and amortized over future periods. As a practical matter, actuaries do not treat past and prior service costs separately but are instead handled as one value.

6. ACTUARIAL GAINS AND LOSSES -
Actual events usually differ from assumptions made by an actuary. The dollar effect of these variances from assumed values is an actuarial gain or loss. Actuarial gains and losses can also include the effects on the actuarial present value of benefits resulting from changes in actuarial assumptions.

   Portfolio investment returns are another major source of actuarial gains and losses affecting pension expense (contribution) for the period. The discount rate was the expected return on pension plan investments. Therefore, if the portfolio's actual returns exceed the expected return (discount rate), an actuarial gain results and employer contributions are reduced. If returns are less than expected, there is an actuarial loss, and employer contributions are increased.

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SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active members. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

The State of Illinois, however, has generally funded the System based on benefit payout, a level which increases over time reflecting a larger work force and higher salary levels. Consequently, it can be expected that a percentage of liability 3 has been funded to date. (It should also be noted that the improvement reflected in recent years results primarily from the significant realized gains on the sale of investments previously described.)

Computed Actuarial Values *(in thousands of dollars)*

Fiscal Year	Member Contributions (1)	Current Retirees and Beneficiaries (2)	Active and Inactive Members, Employer Financed Portion (3)	Net Assets Available For Benefits	Percentage of Actuarial Values Covered by Net Assets Available (1)	(2)	(3)
1983	$482,983	$1,049,972	$1,270,744	$1,408,780	100.0%	88.2%	0.0%
1984	517,008	1,150,634	1,414,552	1,581,326	100.0	92.5	0.0
1985	554,823	1,172,344	1,100,162	1,707,259	100.0	98.3	0.0
1986	597,438	1,287,644	1,228,253	1,974,095	100.0	100.0	7.2
1987	644,749	1,431,161	1,285,813	2,225,883	100.0	100.0	11.7
1988	699,190	1,546,828	1,395,561	2,381,806	100.0	100.0	9.7
1989	757,180	1,653,880	1,341,074	2,580,199	100.0	100.0	12.6
1990	823,025	1,932,126	1,782,923	2,795,567	100.0	100.0	2.3
1991	897,690	2,078,059	1,974,131	2,981,415	100.0	100.0	0.3
1992	867,003	3,047,923	1,685,841	3,278,248	100.0	79.1	0.0

ANALYSIS OF FUNDING

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker. (It should be noted that the improvement reflected in the following schedule for recent years results primarily from significant realized gains on the sale of investments previously described.)

(in thousands of dollars)

Fiscal Year	Total Actuarial Liability	Net Assets	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Member Payroll	Unfunded Actuarial Liability as a % of Member Payroll
1983	$2,803,699	$1,408,780	50.2%	$1,394,919	$1,378,735	101.0%
1984	3,082,194	1,581,326	51.3	1,500,907	1,437,546	104.0
1985	2,827,329	1,707,259	60.4	1,120,070	1,569,532	71.0
1986	3,113,335	1,974,095	63.4	1,139,240	1,713,755	66.0
1987	3,361,723	2,225,883	66.2	1,135,840	1,825,196	62.0
1988	3,641,579	2,381,806	65.4	1,259,773	1,953,960	65.0
1989	3,752,134	2,580,199	68.8	1,171,935	2,106,121	56.0
1990	4,538,074	2,795,567	61.6	1,742,507	2,270,303	77.0
1991	4,949,880	2,981,415	60.2	1,968,465	2,461,352	80.0
1992	5,600,767	3,278,248	58.5	2,322,519	2,439,708	95.2

ANALYSIS OF FINANCIAL EXPERIENCE

Gain (Loss) in Actuarial Liability for Fiscal Years ending June 30, 1992 and 1991 are as follows:

		1992	1991
1.	Actuarial Gains (Loss)		
	(a) Age & Service Retirements	$ -	$ (19,232,881)
	(b) Incidence of Disability	(1,067,300)	(889,305)
	(c) In-Service Mortality	(3,133,983)	(5,776,927)
	(d) Retiree Mortality	1,428,949	(1,867,193)
	(e) Disabled Mortality	21,315	619,073
	(f) Termination of Employment	(30,420,487)	(12,967,263)
	(g) Salary Increases	725,809	(15,879,462)
	(h) Investment Income	107,584,401	(43,333,979)
	(i) Other	(29,203,202)	(4,811,500)
	Total Actuarial Gain (Loss)	$ 45,935,502	$(104,139,437)
2.	Contribution (Income)	$(132,967,051)	$ (93,869,035)
3.	Non-Recurring Items		
	(a) Change in data provided by SERS, beneficiaries not previously reported	-	(10,206,953)
	(b) Increase due to new legislation		
	(i) Optional service purchased under SB1951	-	(17,743,150)
	(ii) Early Retirement Incentive (SB45)	(231,418,950)	-
	(iii) Employer Pickup (SB341)	27,517,752	-
	(iv) Optional service purchases and repayments under HB971 and SB1951	(44,632,309)	-
	(c) Change in Data Handling	(18,488,469)	-
	Total Non-recurring Items	$(267,021,976)	$ (27,950,103)
	Total Financial Gain (Loss)	$(354,053,525)	$(225,958,575)

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
6/30/83	73,050	$1,378,735,000	$18,874	8.8%
6/30/84	68,975	1,437,546,000	20,842	10.4
6/30/85	71,647	1,569,532,000	21,906	5.1
6/30/86	74,012	1,713,755,000	23,155	5.7
6/30/87	74,732	1,825,196,000	24,423	5.5
6/30/88	74,923	1,953,960,000	26,080	6.8
6/30/89	76,651	2,106,121,000	27,477	5.4
6/30/90	79,211	2,270,303,000	28,661	4.3
6/30/91	81,023	2,461,352,000	30,378	6.0
6/30/92	77,194	2,439,708,000	31,605	4.0

SCHEDULE OF RETIRANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1983	18,247	1,764	(705)	19,306
1984	19,306	1,648	(797)	20,157
1985	20,157	1,639	(827)	20,969
1986	20,969	1,635	(833)	21,771
1987	21,771	1,629	(871)	22,529
1988	22,529	1,506	(997)	23,038
1989	23,038	1,532	(998)	23,572
1990	23,572	1,356	(1,064)	23,864
1991	23,864	1,428	(1,009)	24,283
1992	24,283	5,270	(1,052)	28,501

SCHEDULE OF SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1983	6,863	516	(240)	7,139
1984	7,139	535	(303)	7,371
1985	7,371	568	(313)	7,626
1986	7,626	492	(295)	7,823
1987	7,823	514	(322)	8,015
1988	8,015	617	(336)	8,296
1989	8,296	578	(375)	8,499
1990	8,499	525	(395)	8,629
1991	8,629	576	(386)	8,819
1992	8,819	564	(432)	8,951

SCHEDULE OF DISABILITY RECIPIENTS ADDED TO AND REMOVED FROM ROLLS

Fiscal Year	Beginning Balance	Additions	(Removals)	Ending Balance
1983	1,888	2,532	(2,569)	1,851
1984	1,851	2,323	(2,375)	1,799
1985	1,799	2,182	(2,247)	1,734
1986	1,734	2,002	(2,033)	1,703
1987	1,703	1,800	(1,926)	1,577
1988	1,577	1,779	(1,820)	1,536
1989	1,536	1,713	(1,791)	1,458
1990	1,458	1,724	(1,681)	1,501
1991	1,501	2,027	(1,945)	1,583
1992	1583	2,057	(2,081)	1,559

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY-92	FY-91
Unfunded Liability, Beginning of Fiscal Year	$ 1,968,465,659	$1,742,507,084
Contributions Due		
Interest on the Unfunded Liability	157,477,253	139,400,567
Total Normal Cost	74,947,830	72,166,831
Participants (includes Repayment of Refunds)	141,862,797	120,263,354
Interest on Normal Cost	8,505,586	7,549,129
Total Due	$ 382,793,466	$ 339,379,881
Contributions Paid		
Participants (includes Repayment of Refunds)	$ 141,862,797	$ 120,263,354
Employing State Agencies and Appropriations	98,532,783	115,979,568
Interest on Contributions	9,430,835	9,267,924
Total Paid	$ 249,826,415	$ 245,510,846
Increase in the Unfunded Liability	[redacted]	[redacted]
Actuarial (Gains) Losses:		
From Investment Return Greater (Less)Than 8%	$ (107,584,401)	$ 43,333,979
From Salary Increases Greater Than 6 1/2%	-	15,879,462
From Retirement at Other Than Expected Age	-	19,232,881
From Fewer Terminations Than Expected	30,420,487	12,967,263
From Other Sources	31,228,412	12,725,852
Total Actuarial (Gains) Losses	[redacted]	[redacted]
Non-Recurring Items:		
Plan Amendments	$ 276,051,259	$ 17,743,150
Employee Pickup of employee contributions	(27,517,752)	-
Additional Data Provided by SERS:		
a) Beneficiaries not previously reported	-	10,206,953
b) Change in handling data	18,488,469	-
Total Non-Recurring Items	[redacted]	[redacted]
Total Increase (Decrease) in Actuarial Liability	[redacted]	[redacted]
Unfunded Liability, End of Fiscal Year	$ 2,322,519,184	$1,968,465,659

INVESTMENT SECTION

Investment Report

Investment Portfolio Summary

Analysis of Investment Performance

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI Board). The ISBI Board was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. At the end of the fiscal year, in addition to the assets of the State Employees' Retirement System, the ISBI Board also managed the investment function for the Judges' and General Assembly Retirement Systems. As of June 30, 1992, total net assets under management valued at market, amounted to $3.866 billion. Of the total assets under management, $3.620 million or 93.7% represented assets of the State Employees' Retirement System.

Management Approach

The ISBI Board manages the Fund in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI Board has established a long-range investment policy which, in line with the prudent person rule, affirms that the Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the Fund, within prudent risk parameters. Further, it is the ISBI Board's philosophy that the assets owned by the participating systems and managed by the ISBI Board are held for the exclusive purpose of providing benefits to the participants and annuitants of the respective retirement systems and their beneficiaries. In line with this philosophy, the ISBI Board from time to time evaluates its asset allocation which is considered by many to be the single most important factor in pension investment management. The three major asset classes are: bonds, equities and cash; with smaller positions being allocated to real estate, venture capital and other alternative investments.

Total Fund Results

The Illinois State Board of Investment Commingled Fund (ISBI Fund) had a market value of $3.866 billion as of the end of its fiscal year, June 30, 1992. The ISBI Fund had an increase in market value of $362.9 million for the fiscal year, all of which resulted from net appreciation of assets and net realized yield on investments, as the member systems withdrew nearly $44 million on a net basis during the fiscal year.

The ISBI Fund's total rate of return for fiscal 1992, net of expenses, was 11.6%. Both domestic equity and fixed income portfolios produced strong returns and the Fund's performance in these sectors was superior relative to market indices. Foreign equity market returns were substantially below those in the U.S.; however, ISBI's global and international managers achieved good absolute returns (i.e. when compared to respective benchmarks) in spite of the weak foreign markets. During fiscal 1992, the performance of non-marketable securities lagged that of publicly traded markets, while downward adjustments in real estate values more than offset cash-on-cash yields, resulting in a negative total real estate return.

During fiscal 1992, the ISBI Board completed an extensive review of investment policies, objectives and performance; culminating in the approval of a comprehensive written objectives and strategies plan for the next three years. The Plan sets a long-term average annual investment rate of return objective of 9.0% for the Fund, or a 4.5% rate of return assuming a 4.5% annual inflation rate. The Plan reaffirms the broadly diversified investment strategy that the ISBI Board has pursued for a number of years, with the belief that this approach will, over the long term, maximize return within a prudent level of investment risk.

The Plan establishes long-term target percentages for each asset category, as well as ranges over which actual asset allocation to these categories can deviate from the long-term targets. The Plan also defines market benchmarks and performance objectives for the total ISBI Fund, for each asset class, and for each individual investment manager, as well as procedures for hiring, monitoring, and terminating external managers.

The ISBI Board believes that this Plan will produce higher rates of return at lower levels of risk in future years. One of the many adjustments resulting from the Plan will be a reduction in the number of external managers in order to eliminate redundancy and achieve greater specialization and economies of scale. This reduction also reflects the continued negative net contributions from member systems. As mentioned earlier, net withdrawals for fiscal 1992 were nearly $44 million, and are estimated to be approximately $80 million in fiscal 1993.

Fixed Income

Substantially all fixed income assets are managed internally by the ISBI except for approximately $242 million allocated to external high yield and convertible debt managers. All fixed income markets exhibited strong performance during the fiscal year, with high yield securities producing particularly good results. The ISBI internal account achieved superior results in both the high yield and the investment-grade corporate portion of the portfolio, and produced a 16.3% rate of return for the fiscal year, over 200 basis points higher than the market benchmark. Good performance from the specialty managers further improved the total fixed income return to 17.1% which was the best return for any asset class for the last fiscal year.

Comparative average annual rates of return for the total fixed income portfolio versus benchmark market indices are set forth below:

	1 Year	3 Years	5 Years
ISBI	17.1%	11.0%	11.3%
Shearson Lehman G/C	14.2%	10.5%	10.2%
Shearson Lehman Aggregate	14.1%	10.8%	10.6%

Equity

The ISBI Board remains committed to the policy of having all equity investments for the ISBI fund externally managed. As of June 30, 1992, funds under management by domestic, global, and international equity managers totaled $1,434 million, $233 million, and $91 million, respectively.

For the fiscal year, the U.S. stock market significantly out performed foreign markets, especially when currency movements are included. Therefore, domestic equity managers had the best absolute results, followed by global and international managers respectively. However, managers in all three categories outperformed their respective market benchmarks for the fiscal year. Domestic equity managers produced a rate of return of 15.2% compared to 13.5% for the S&P 500. Global managers earned an impressive 12.8%, as compared to a 1.3% gain for the Morgan Stanley Capital International World Index (MSCI), and international managers earned 4.2%, as compared to a 0.3% loss for the Morgan Stanley Capital International Index for Europe, Australia and the Far East (EAFE).

Although foreign stock markets have under performed the U.S. stock market in the last several years, the ISBI Board believes that there will be periods when the opposite is true, and that over longer periods of time the ISBI Fund's total rate of return will be improved by this diversification.

The composite average annual rates of return for the total equity portfolio, as compared to the S & P 500, are set forth below:

	1 Year	3 Years	5 Years
ISBI	14.4%	10.6%	8.7%
S&P 500	13.5%	12.4%	9.8%

Real Estate

During fiscal 1992, 1991, and 1990, other than a reclassification of a farmland investment, the ISBI Fund made no new commitments to real estate investments. Although the ISBI Fund received a 5% cash-on-cash real estate return for the fiscal year, the asset category was written down more than 16%, resulting in an aggregate negative rate of return of 11.2%. All of the ISBI Fund's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments. The allocation according to property type is 31% retail, 24% office, 13% apartment, 6% warehouse and research and development, with the remaining 26% in mixed use, land and miscellaneous.

Average annual returns for the combined real estate portfolio compared to the market benchmark for unleveraged institutional grade property returns are as follows:

	1 Year	3 Years	5 Years
ISBI	(11.2)%	(2.5)%	1.5%
NCREIF	(7.2)%	(1.1)%	2.0%

Non-Marketable Securities

The 7.4% total rate of return for this asset category during fiscal 1992 lagged the publicly traded equity market returns. The portfolio's largest investment is with the Kohlberg Kravis Roberts leverage buyout limited partnership, which accounts for approximately 70% of this category. Although the 3.9% KKR rate of return for fiscal 1992 was disappointing, the long-term track record is good. The remaining investments in this asset class consist primarily of passive interests the ISBI Fund has in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities.

Average annual returns for additional time periods for this category are set forth below:

	1 Year	3 Years	5 Years
ISBI	7.4%	12.6%	11.0%

Management Expenses

Total operating expenses, including fees to external managers, for the fiscal year were $12,525,388, as compared to $11,486,438 for the previous fiscal year. The expense ratio (expenses divided by assets under management) was .32% as compared to .33% last fiscal year. The State Employees' Retirement System's share of total operating expenses amounted to $11,725,548.

Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1992. A copy of the report can be obtained from the Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1992		June 30, 1991	
	Market Value	Percentage	Market Value	Percentage
Fixed Income	$1,458,154,012	37.7%	$ 1,375,015,021	39.3%
Equities	1,650,996,186	42.8%	1,473,327,061	42.1%
Real Estate	325,963,498	8.4%	341,066,237	9.7%
Non-Marketable	178,844,300	4.6%	183,670,238	5.2%
Cash equivalents**	251,975,370	6.5%	129,935,529	3.7%
Net assets at market value	$3,865,933,366*	100.0%	$ 3,503,014,086*	100.0%
Net assets, at cost	$3,477,187,528*		$ 3,153,895,617*	

* These amounts represent the total assets under management of the Illinois State Board of Investment. The assets of the State Employees' Retirement System at market and cost for fiscal year 1992 were $3,619,656,868 and $3,257,144,759, respectively. For fiscal year 1991 the market and cost values were $3,275,301,134 and $2,949,573,783, respectively.

** Cash equivalents include other assets less liabilities.

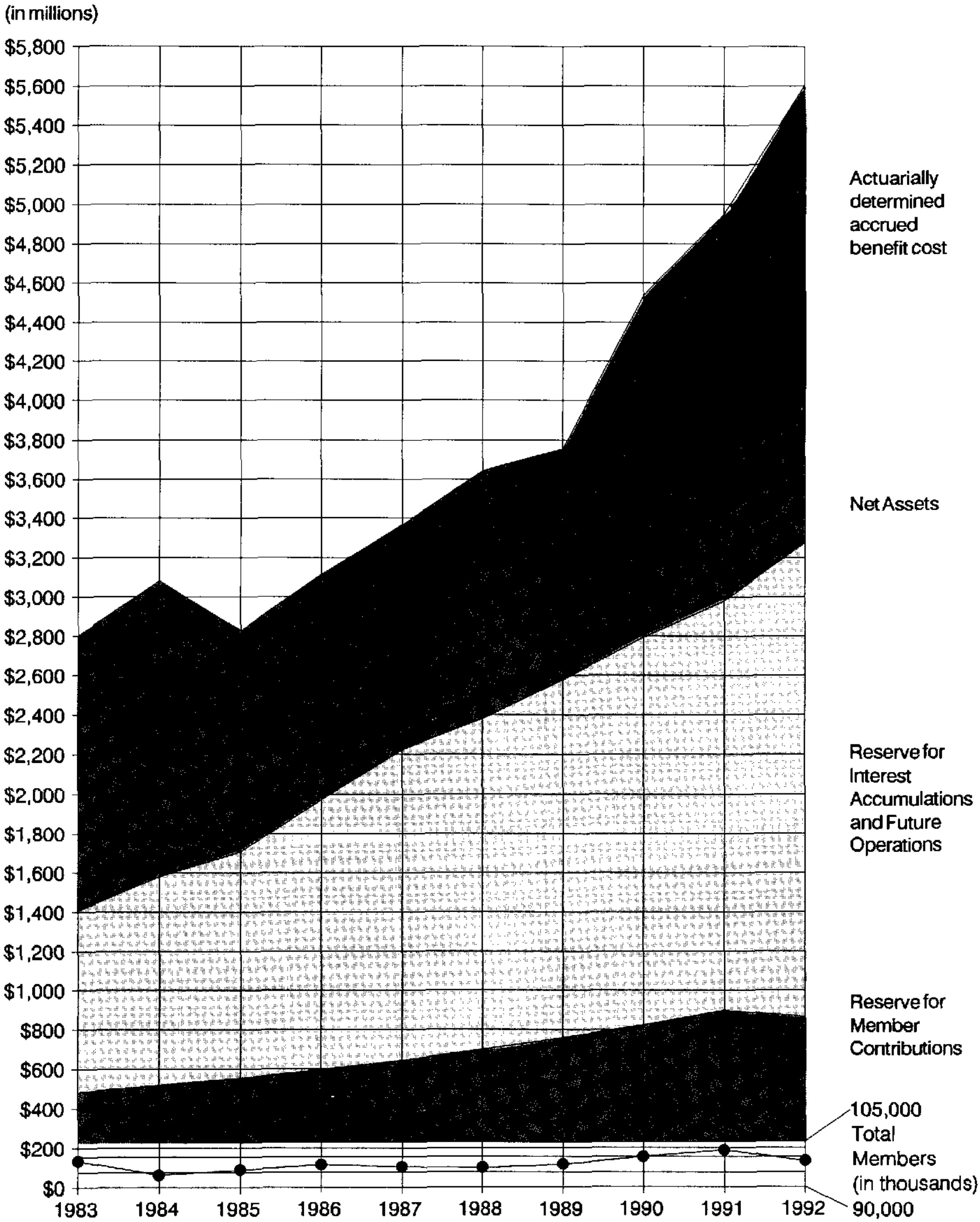
ANALYSIS OF INVESTMENT PERFORMANCE

	1992	1991	1990	1989	1988
Total Return* - Past 3 years	[redacted]				
Total Return* - Past 5 years					
Total Return* - year by year	11.6%	7.0%	8.0%	14.3%	2.8%
Actuarial Assumed Rate of Return	[redacted]				
Average Net Income Yield*	5.4%	5.2%	5.2%	5.5%	5.6%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	17.1%	9.0%	5.9%	12.0%	9.3%
Comparison index: Shearson Lehman Government/ Corporate Bond Index	14.2%	10.2%	7.1%	12.3%	7.5%
Comparative rates of return on equities					
Total equities - ISBI	14.4%	7.3%	10.5%	17.0%	(4.6%)
Comparison index: S&P 500	13.5%	7.4%	16.4%	20.6%	(6.9%)

* Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

STATISTICAL SECTION

A comparison of total members, net assets and total actuarial liabilities for the past ten years.



BALANCE SHEET ASSETS - SYSTEM TRUST FUND

FY Ended June 30	Cash	Receivables	Investments At Cost	Fixed Assets, Net of Accumulated Depreciation	Total
1983	$ 7,219,474	$ 7,984,364	$1,395,936,136	$ -	$1,411,139,974
1984	9,100,232	9,923,500	1,564,277,185	189,494	1,583,490,411
1985	11,216,376	9,799,827	1,688,252,032	127,268	1,709,395,503
1986	7,618,809	8,931,617	1,959,702,313	124,916	1,976,377,655
1987	5,977,771	10,189,788	2,211,906,317	168,785	2,228,242,661
1988	9,893,839	6,931,093	2,367,063,722	823,484	2,384,712,138
1989	9,730,385	7,047,705	2,565,152,803	1,103,973	2,583,034,866
1990	11,187,478	8,072,524	2,775,885,256	4,340,351	2,799,485,609
1991	18,682,979	12,050,151	2,949,573,783	4,436,451	2,984,743,364
1992	12,413,156	8,546,535	3,257,144,759	4,311,268	3,282,415,718

BALANCE SHEET LIABILITIES - SYSTEM TRUST FUND

FY Ended June 30	Accounts Payable	Reserve For Member Contributions	Reserve For Interest Accumulations and Future Operations	Total
1983	$2,359,780	$482,983,107	$ 925,797,087	$1,411,139,974
1984	2,164,123	517,008,266	1,064,318,022	1,583,490,411
1985	2,136,041	554,822,852	1,152,436,610	1,709,395,503
1986	2,282,972	597,438,053	1,376,656,630	1,976,377,655
1987	2,359,515	644,749,034	1,581,134,112	2,228,242,661
1988	2,906,072	699,189,621	1,682,616,445	2,384,712,138
1989	2,836,020	757,180,186	1,823,018,660	2,583,034,866
1990	3,918,499	823,025,513	1,972,541,597	2,799,485,609
1991	3,328,811	897,689,637	2,083,724,916	2,984,743,364
1992	4,168,161	867,002,526	2,411,245,031	3,282,415,718

REVENUES BY SOURCE - SYSTEM TRUST FUND*

FY Ended June 30	Member Contributions	State Contributions	Investment Income	Total
1983	$ 72,371,246	$ 71,846,403	$192,573,257	$336,790,906
1984	73,442,196	86,464,279	150,170,315	310,076,790
1985	77,830,806	94,456,693	101,754,931	274,042,430
1986	84,563,536	102,213,693	240,235,534	427,012,763
1987	90,096,279	109,559,940	226,929,603	426,585,822
1988	95,928,239	99,990,922	148,802,057	344,721,218
1989	101,805,417	98,471,993	199,452,398	399,729,808
1990	110,109,685	107,938,094	213,139,724	431,187,503
1991	120,263,354	115,979,568	180,520,373	416,763,295
1992	141,862,797	98,532,783	344,237,850	584,633,430

*These amounts do not include the General Revenue Fund appropriation for the administrative expenses of the Contribution Fund.

EXPENSES BY TYPE - SYSTEM TRUST FUND*

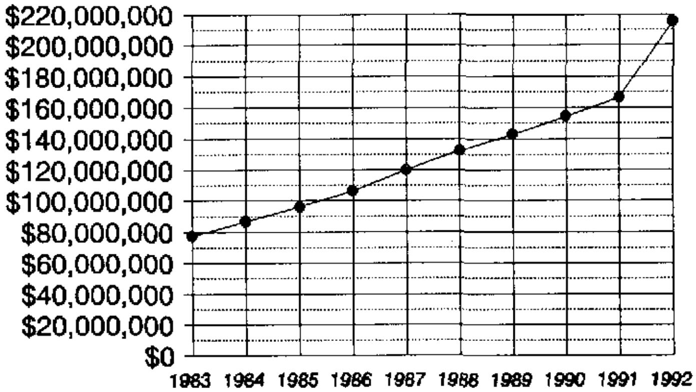
FY Ended June 30	Benefits	Contribution Refunds (Incl. Transfers)	Administrative Expenses	Total
1983	$111,852,846	$14,009,169	$2,290,492	$128,152,507
1984	120,996,071	14,145,496	2,428,623	137,570,190
1985	132,316,478	13,240,326	2,552,452	148,109,256
1986	143,548,518	13,780,843	2,848,181	160,177,542
1987	159,614,328	12,182,099	3,000,932	174,797,359
1988	173,644,549	11,983,814	3,169,935	188,798,298
1989	185,354,303	12,602,555	3,380,170	201,337,028
1990	199,606,912	12,325,179	3,887,148	215,819,239
1991	215,290,386	11,851,930	3,773,536	230,915,852
1992	266,652,372	16,918,761	4,229,293	287,800,426

* These amounts do not include the General Revenue Fund Appropriations for the administrative expenses of the Contribution Fund.

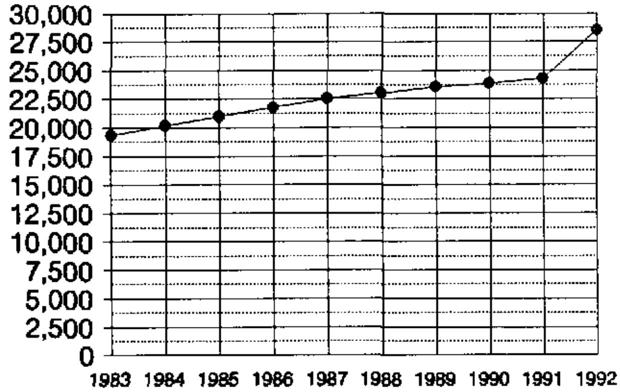
BENEFIT EXPENSES BY TYPE - SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability Benefits	Lump Sum Death Benefits	Total
1983	$ 77,472,708	$ 15,253,035	$14,101,575	$5,025,528	$111,852,846
1984	86,651,697	16,114,837	13,985,426	4,244,111	120,996,071
1985	95,965,469	17,086,453	14,164,732	5,099,824	132,316,478
1986	106,475,314	17,856,166	14,452,304	4,764,734	143,548,518
1987	119,758,023	18,955,079	14,521,296	6,379,930	159,614,328
1988	132,265,411	20,319,659	14,660,199	6,399,280	173,644,549
1989	142,706,550	20,987,489	14,379,147	7,281,117	185,354,303
1990	154,368,901	22,014,615	15,313,434	7,909,962	199,606,912
1991	166,360,086	23,592,609	16,655,172	8,682,519	215,290,386
1992	215,470,012	25,104,054	17,764,029	8,314,277	266,652,372

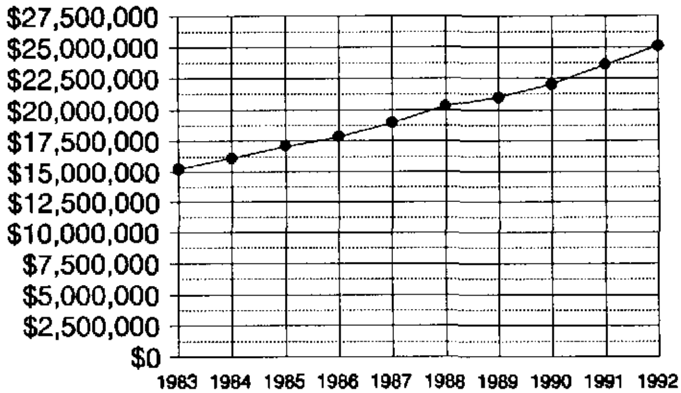
Retirement Annuities



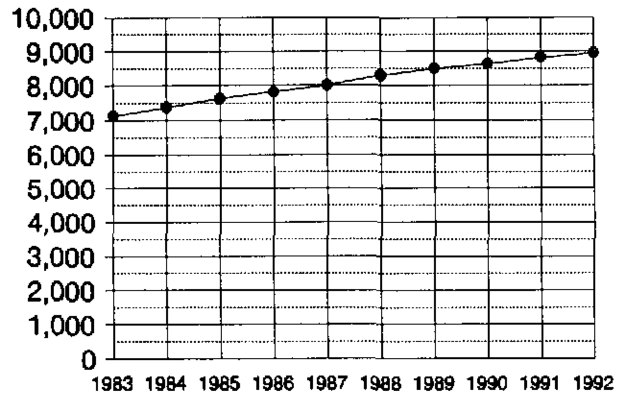
Number of Retirment Annuities



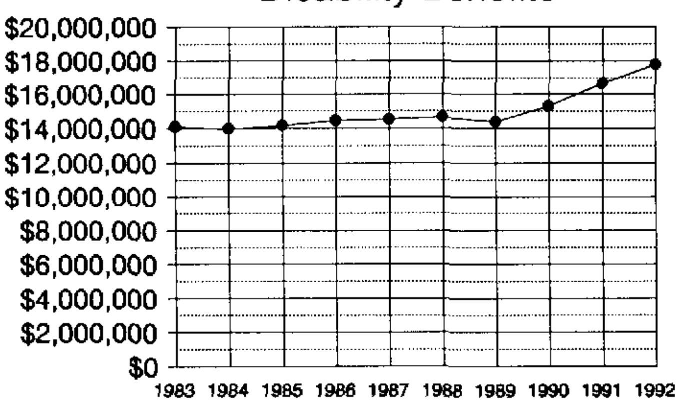
Survivors' Annuities



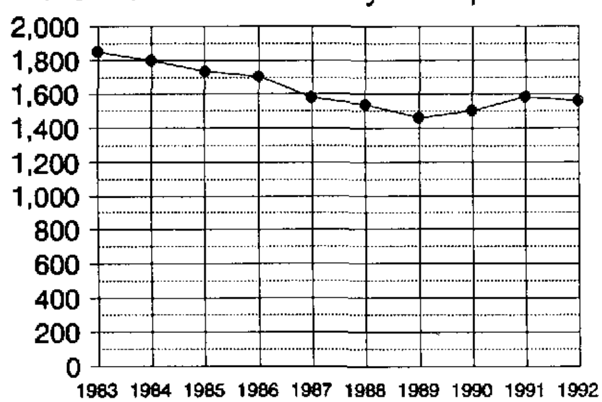
Number of Survivors' Annuities



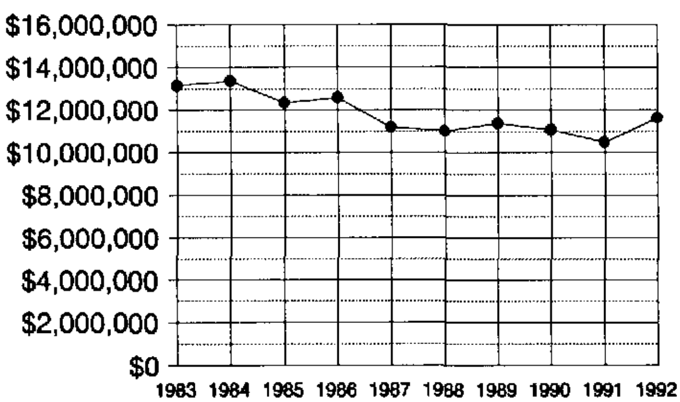
Disability Benefits



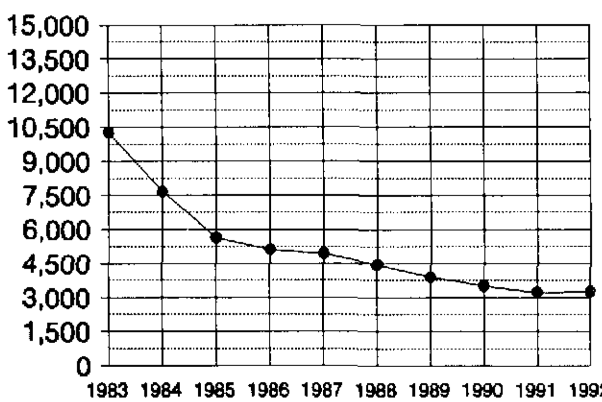
Number of Disability Recipients



Termination Refunds



Number of Refunds



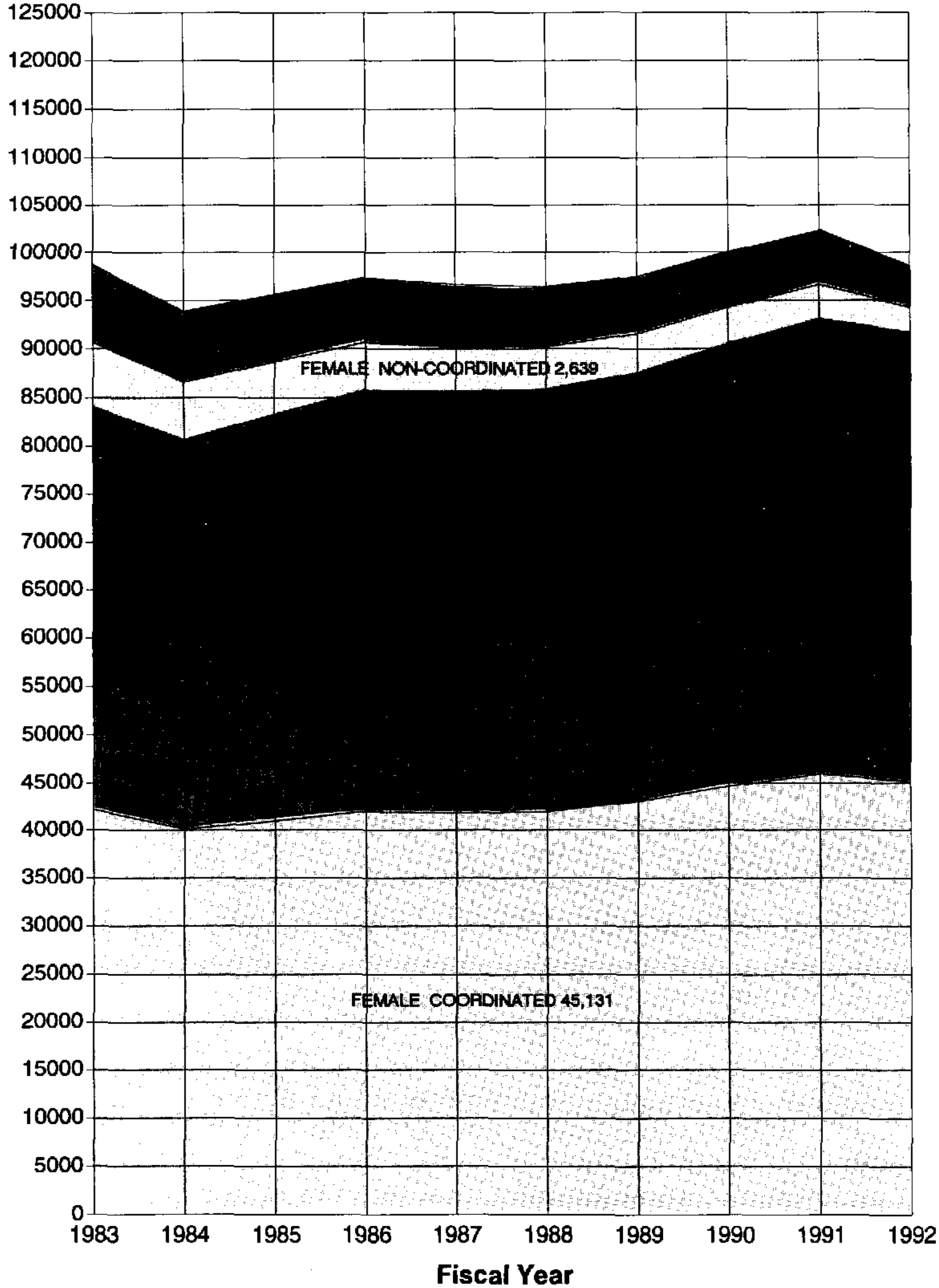
TOTAL MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS Male	COORDINATED MEMBERS Female	COORDINATED MEMBERS Total	NONCOORDINATED MEMBERS Male	NONCOORDINATED MEMBERS Female	NONCOORDINATED MEMBERS Total	Total Male Members	Total Female Members	Total Members
1983	42,009	42,122	84,131	8,024	6,585	14,609	50,033	48,707	98,740
1984	40,547	40,136	80,683	7,338	5,915	13,253	47,885	46,051	93,936
1985	42,349	40,966	83,315	6,977	5,415	12,392	49,326	46,381	95,707
1986	43,762	41,935	85,697	6,716	4,997	11,713	50,478	46,932	97,410
1987	43,865	41,736	85,601	6,416	4,631	11,047	50,281	46,367	96,648
1988	43,988	41,914	85,902	6,257	4,342	10,599	50,245	46,256	96,501
1989	44,449	43,086	87,535	5,947	4,027	9,974	50,396	47,113	97,509
1990	45,885	44,683	90,568	5,750	3,741	9,491	51,635	48,424	100,059
1991	47,223	45,939	93,162	5,608	3,499	9,107	52,831	49,438	102,269
1992	46,536	45,131	91,667	4,316	2,639	6,955	50,852	47,770	98,622

ACTIVE MEMBERSHIP - COORDINATED/NONCOORDINATED

FY Ended June 30	COORDINATED MEMBERS Male	COORDINATED MEMBERS Female	COORDINATED MEMBERS Total	NONCOORDINATED MEMBERS Male	NONCOORDINATED MEMBERS Female	NONCOORDINATED MEMBERS Total	Total Male Members	Total Female Members	Total Active Members	Annual Earnings Reported
1983	28,868	31,229	60,097	7,037	5,916	12,953	35,905	37,145	73,050	$1,378,735,000
1984	27,457	29,488	56,945	6,636	5,394	12,030	34,093	34,882	68,975	1,437,546,000
1985	29,763	30,583	60,346	6,349	4,952	11,301	36,112	35,535	71,647	1,569,532,000
1986	31,486	31,832	63,318	6,135	4,559	10,694	37,621	36,391	74,012	1,713,755,000
1987	32,294	32,270	64,564	5,924	4,244	10,168	38,218	36,514	74,732	1,825,196,000
1988	32,567	32,570	65,137	5,804	3,982	9,786	38,371	36,552	74,923	1,953,960,000
1989	33,342	34,047	67,389	5,557	3,705	9,262	38,899	37,752	76,651	2,106,121,000
1990	34,818	35,476	70,294	5,433	3,484	8,917	40,251	38,960	79,211	2,270,303,000
1991	35,984	36,461	72,445	5,325	3,253	8,578	41,309	39,714	81,023	2,461,352,000
1992	35,263	35,447	70,710	4,069	2,415	6,484	39,332	37,862	77,194	2,439,708,000

Total membership - Coordinated/Noncoordinated



NUMBER OF RECURRING BENEFIT PAYMENTS - SYSTEM TRUST FUND

FY Ended June 30	Retirement Annuities	Survivors' Annuities	Disability* Benefits	Total
1983	19,306	7,139	1,851	28,296
1984	20,157	7,371	1,799	29,327
1985	20,969	7,626	1,734	30,329
1986	21,771	7,823	1,703	31,297
1987	22,529	8,015	1,577	32,121
1988	23,038	8,296	1,536	32,870
1989	23,572	8,499	1,458	33,529
1990	23,864	8,629	1,501	33,994
1991	24,283	8,819	1,583	34,685
1992	28,501	8,951	1,559	39,011

*Includes individuals receiving total temporary disability payments under the Workers' Compensation Act.

TERMINATION REFUNDS - NUMBER/AMOUNT - SYSTEM TRUST FUND

1983	10,252	$13,149,550
1984	7,664	13,349,332
1985	5,638	12,339,874
1986	5,118	12,587,868
1987	4,930	11,192,197
1988	4,431	11,015,216
1989	3,879	11,393,289
1990	3,509	11,088,659
1991	3,235	10,488,713
1992	3,257	11,634,268

RETIREMENT ANNUITIES - SYSTEM TRUST FUND
Average Monthly Benefit For Current Year Retirees By Type

Fiscal Year Ending June 30	1992	1991	1990	1989	1988
Not Coordinated with Social Security	$ 1,860.38	$ 1,237.79	$ 1,153.58	$ 975.24	$ 924.09
Coordinated with Social Security	683.38	404.26	411.07	371.83	347.06
Alternative Formula	2,863.17	2,821.34	2,903.27	2,450.98	2,340.52
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	1,944.69	1,640.16	1,469.27	1,393.57	1,370.91
Dept. of Corrections - Special Formula Coordinated with Social Security	1,341.49	993.56	968.73	863.82	891.39
Air Pilots - Coordinated with Social Security	2,082.77	-	-	-	-
Court Reporters - Not Coordinated with Social Security	1,981.77	1,440.34	1,949.44	-	-
Court Reporters - Coordinated with Social Security	1,120.78	328.58	705.94	-	-
Total Average	$ 1,243.94	$ 784.48	$ 802.07	$ 672.93	$ 670.38

RETIREMENT ANNUITIES - SYSTEM TRUST FUND
Current Age of Active Recipients

	Fiscal Year Ending June 30				
Age	1992	1991	1990	1989	1988
Under 51	109	8	6	1	2
51-55	905	159	168	196	196
56-60	1,973	792	770	735	700
61-65	4,563	3,495	3,517	3,697	3,684
66-70	6,354	5,865	5,808	5,705	5,628
71-75	5,665	5,460	5,485	5,480	5,478
76-80	4,634	4,495	4,325	4,190	4,018
81-85	2,684	2,516	2,391	2,242	2,095
86-89	1,030	934	899	852	805
Over 89	584	559	495	474	432
Total	28,501	24,283	23,864	23,572	23,038
Average age	71.19	72.70	72.55	72.35	72.19

RETIREMENT ANNUITIES - SYSTEM TRUST FUND
Average Service (in months) for Current Year Retirees at Effective Date of Benefit

Fiscal Year Ending June 30	1992	1991	1990	1989	1988
Not Coordinated with Social Security	407.93	344.13	339.78	319.85	316.25
Coordinated with Social Security	207.55	209.78	209.45	205.34	198.45
Alternative Formula	346.61	341.68	346.42	333.31	340.07
Dept. of Corrections - Special Formula - Not Coordinated with Social Security	369.84	324.05	327.02	326.29	323.25
Dept. of Corrections -Special Formula - Coordinated with Social Security	307.44	278.35	261.29	275.29	272.34
Air Pilots - Coordinated with Social Security	338.00	-	-	-	-
Court Reporters - Not Coordinated with Social Security	380.92	309.05	389.80	-	-
Court Reporters - Coordinated with Social Security	299.71	172.00	199.37	-	-
Total Average	324.55	259.32	260.82	252.01	251.41

Annuitants by Benefit Range (Monthly) June 30, 1992

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	1,053	1,053	3.7	3.7
101-200	4,648	5,701	16.3	20.0
201-300	4,123	9,824	14.5	34.5
301-400	3,278	13,102	11.5	46.0
401-500	2,381	15,483	8.4	54.4
501-600	1,927	17,410	6.8	61.2
601-700	1,429	18,839	5.0	66.2
701-800	1,123	19,962	3.9	70.1
801-900	931	20,893	3.3	73.4
901-1000	821	21,714	2.9	76.3
1001-1100	797	22,511	2.8	79.1
1101-1200	642	23,153	2.3	81.4
1201-1300	548	23,701	1.9	83.3
1301-1400	488	24,189	1.7	85.0
1401-1500	434	24,523	1.5	86.5
1501-1600	428	25,051	1.5	88.0
1601-1700	364	25,415	1.3	89.3
1701-1800	341	25,756	1.2	90.5
1801-1900	316	26,072	1.1	91.6
1901-2000	273	26,345	1.0	92.6
2001-2100	249	26,594	0.9	93.5
2101-2200	187	26,781	0.7	94.2
2201-5000	1,719	28,500	6.0	100.0
5000- & over	1	28,501	0.0	100.0

Widow's and Survivors' by Benefit Range (Monthly) June 30, 1992

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	2,516	2,516	28.1	28.1
101-200	2,262	4,778	25.3	53.4
201-300	1,735	6,513	19.4	72.8
301-400	1,128	7,641	12.6	85.4
401-500	679	8,320	7.6	93.0
501-600	205	8,525	2.3	95.3
601-700	141	8,666	1.6	96.9
701-800	107	8,773	1.2	98.1
801-900	66	8,839	0.7	98.8
901-1000	33	8,874	0.4	99.2
1001-1100	29	8,903	0.3	99.5
1101-1200	14	8,917	0.2	99.7
1201-1300	17	8,934	0.3	100.0
1301-1400	4	8,938	0.0	100.0
1401-1500	2	8,940	0.0	100.0
1501-1600	4	8,944	0.0	100.0
1601-1700	3	8,947	0.0	100.0
1701-1800	2	8,949	0.0	100.0
1801-1900	1	8,950	0.0	100.0
1901-2000	0	8,950	0.0	100.0
2001-2100	1	8,951	0.0	100.0
2101-2200	0	8,951	0.0	100.0
2201-5000	0	8,951	0.0	100.0

Occupational and Non-Occupational (Incl. Temp) Disabilities by Benefit Range (Monthly) June 30, 1992

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-100	26	26	1.7	1.7
101-200	128	154	8.2	9.9
201-300	225	379	14.4	24.3
301-400	206	858	13.2	37.5
401-500	132	717	8.5	46.0
501-600	95	812	6.1	52.1
601-700	87	899	5.6	57.7
701-800	104	1,003	6.7	64.4
801-900	119	1,122	7.6	72.0
901-1000	94	1,216	6.0	78.0
1001-1100	71	1,287	4.6	82.6
1101-1200	67	1,354	4.3	86.9
1201-1300	61	1,415	3.9	90.8
1301-1400	44	1,459	2.8	93.6
1401-1500	24	1,483	1.5	95.1
1501-1600	29	1,512	1.9	97.0
1601-1700	13	1,525	0.8	97.8
1701-1800	11	1,536	0.7	98.5
1801-1900	5	1,541	03	98.8
1901-2000	3	1,544	0.2	99.0
2001-2100	6	1,550	0.4	99.4
2101-2200	1	1,551	0.1	99.5
2201-5000	8	1,559	0.5	100.0

Active Retirees by State

PLAN SUMMARY AND LEGISLATIVE SECTION

Plan Summary

Legislative Section

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 1992)

1. PURPOSE

The State Employees' Retirement System of Illinois, a state agency, provides an orderly means whereby aged or disabled employees may be retired from active service without prejudice or hardship and enables the employees to accumulate reserves for old age, disability, death and termination of employment.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of seven members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE MEMBERSHIP

All persons entering state service become members of the System after serving a six-month qualifying period unless their position is subject to membership in another state supported system. Any enrollee of the Young Adult Conservation Corps is excluded from membership. Employees appointed by the Governor and requiring confirmation by the State of Illinois Senate may elect to become members of the System.

4. MEMBERS CONTRIBUTIONS

Members are required to contribute a percentage of salary as their share of meeting the cost of the various benefits. Contribution rates are as shown below:

A. Members Coordinated with Social Security - 4% of salary

B. Members Without Social Security - 8% of salary

C. State Police, Special Agents, Firefighters, Secretary of State Investigators, Conservation Police Officers, Department of Revenue Investigators, Central Management Services Security Police and Mental Health Police Officers - 9 1/2% of salary

D. Full Time Security Employees of the Department of Corrections; Air Pilots -
   (1) Coordinated with Social Security - 5 1/2% of salary
   (2) Without Social Security - 9 1/2% of salary

Members coordinated with social security also pay the current social security tax rate.

Effective January 1, 1992, most state agencies began participation in an employer pickup of employee retirement contributions program. The employer now pays all or a part of the required employee contributions on behalf of their employees.

5. RETIREMENT PENSION

A. Qualification of Member

Upon termination of state service, a member is eligible for a pension at age 60 with at least eight years of pension credit; at any age with 35 or more years of credit; between ages 55 and 60 with 30 to 35 years of credit with the pension reduced by one-half of 1% for each month the member is under age 60. Security employees of the Department of Corrections and the Department of Mental Health and Developmental Disabilities - Chester, Illinois who are not eligible for the Alternative Formula must have at least 20 years of membership service to qualify for special pension formulas which will apply only to the service earned while in a security position.

Members in Alternative Formula positions are eligible at age 50 with at least 25 years of eligible creditable service or at age 55 with at least 20 years of eligible creditable service in such a position.

B. Amount of Pension

The pension is based on the member's final average compensation and the number of years of pension credit that have been established. The pension formula reflects a graded or progressive method according to length of service as follows:

Years of Credit	Employees Under Social Security	Employees Not Under Social Security	Full Time Security Employees- Dept. of Corrections* Under S.S.	Full Time Security Employees- Dept. of Corrections* Not Under S.S.	Alternative Formula, i.e. Police and other positions Under S.S.	Alternative Formula, i.e. Police and other positions Not Under S.S.	Court Reporter Under S.S.	Court Reporter Not Under S.S.
Each of the first 10 years of credit	1.0%	1.67%	1.67%	1.9%	1.67%	2.25%	1.5%	2.2%
Each of the second 10 years of credit	1.1%	1.9%	1.9%	2.1%	1.9%	2.5%	1.5%	2.2%
Each of the third 10 years of credit	1.3%	2.1%	2.1%	2.25%	2.1%	2.75%	1.5%	2.2%
Each year above 30 years	1.5%	2.3%	2.3%	2.5%	2.3%	2.75%	1.5%	2.2%

*Who are not eligible for the Alternative Formula. Also included in this group are Department of Mental Health - Chester, Illinois security employees.

The *maximum* pension payable is 75% of final average compensation. The minimum pension payable is $7.50 for each year of covered employment and $15.00 for each year of noncovered employment.

C. Optional Forms of Payment

Reversionary Annuity - A member may elect to receive a smaller pension during his lifetime in order to provide a spouse or a designated dependent with a lifetime income. That payment would be in addition to any other benefit payable by the System.

Level Income - A member who contributes to social security as a state employee may elect to have his pension payments increased before age 62, the age at which the member can receive unreduced social security benefits and reduced after that age to provide a uniform pension income throughout his retired life. To be eligible for this election the member must have established eligibility for a social security pension.

D. Annual Increases in Pension

Post retirement increases of 3% are granted to members effective each January 1 after receipt of benefits for one full year.

6. SURVIVORS' ANNUITY

A. Qualification of Survivor

If death occurs while in state employment, the member must have established at least 18 months of pension credit. If death occurs after termination of state service and the member was not receiving a retirement pension, the member must have established at least eight years of pension credit.

An eligible spouse qualifies at age 50 or at any age if there is in the care of the spouse any unmarried children of the member under age 18 or over 18 if mentally or physically disabled; unmarried children under age 18 if no spouse survives; dependent parents at age 50 if neither an eligible spouse nor eligible children survive the member.

A spouse that is the sole nominated beneficiary and sole survivor may elect other death benefits in number 9 on page 65.

B. Amount of Payment

If the member's death occurs before retirement, the named beneficiary receives a lump sum refund of all the member's pension contributions plus interest credited to the member's account, excluding contributions for widow and survivors' benefits. A single lump sum payment of $1,000 is also made to the survivor beneficiary of the member.

An eligible spouse receives a monthly annuity equal to 30% of the member's final average compensation subject to a maximum of $400. If children of the member are under the care of the spouse, the annuity is increased for each child, subject to a maximum of $600 or 80% of final average compensation. If only eligible children survive, the monthly annuity may not exceed the lessor of $600 or 80% of final average compensation. The maximum combined monthly payment to parents may not exceed $400. If the member's death occurs after retirement or after termination of state employment but before the member receives a pension, the monthly benefit is the same as during active employment or 80% of the earned pension at date of death.

The minimum total survivor benefit payable to the survivors' annuity beneficiaries of a deceased member or annuitant shall be 50% of the amount of retirement annuity that was or would have been payable to the deceased member on the date of death. Monthly benefits payable to survivors of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits they are eligible to receive from social security as a widow(er). The social security offset may not reduce the benefit by more than 50%.

C. Duration of Payment

The monthly annuity payable to a spouse terminates upon death or remarriage prior to attainment of age 55; to children upon death, marriage, or attainment of age 18, except for a child who at age 18 is physically or mentally disabled and unable to accept gainful employment, which terminate at death or gainful employment. Dependent parents' benefits terminate at death or remarriage.

D. Annual Increase in Benefit

The survivor benefit is increased by 3% each January 1, after receipt of benefits for one full year.

7. WIDOW'S ANNUITY OPTION

The widow of a male member who was a participant in the System prior to July 19, 1961, may have the option of taking a Widow's Annuity rather than the Survivors' Annuity.

A. Qualification of Widow

An eligible widow receives a Widow's Annuity if she is age 50 or over or has in her care any of the member's unmarried children under age 18. If she is not age 50 and has no such children in her care, she becomes eligible at age 50.

B. Amount of Payment

The Widow's Annuity consists of a lump sum payment of $500, plus a monthly annuity equal to 50% of the pension earned or received by the member at the date of death. If the widow has in her care eligible children of the member, the monthly annuity is increased 5% because of each child, subject to a maximum payment equal to 66 2/3% of the earned pension. Monthly benefits payable to a widow of a member who was covered by social security as a state employee are reduced by one-half of the amount of benefits she is eligible to receive from social security as a widow. The social security offset may not be reduce the benefit by more than 50%.

C. Duration of Payment

The monthly payment to the widow continues for her lifetime whether or not she remarries. If the amount of benefit was increased because of eligible children, it is adjusted downward as these children's benefits are terminated (death, marriage or attainment of age 18).

D. Annual Increase in Benefit

The widows benefit is increased by 3% each January 1, after receipt of benefits for one full year.

8. OCCUPATIONAL DEATH BENEFIT

A. Qualification of Survivors

If a member's death results from a job related cause, the spouse may be eligible for an Occupational Death benefit. If only unmarried children under age 18 survive, they may be eligible for the benefit. If neither spouse nor eligible children survive, a dependent father or mother may be eligible.

B. Amount of Payment

The nominated beneficiary receives a lump sum payment consisting of all contributions made by the member plus interest credited to the member account. *A surviving spouse is entitled to a monthly benefit equal to 50% of the* member's final average compensation. If children under age 18 also survive, the annuity is increased by 15% of such average because of each child subject to a maximum of 75%, if there is no eligible spouse and children under 18 survive, each child receives a monthly allowance of 15% of final average compensation. The combined payment to children may not exceed 50% of the member's final average compensation. If there is no eligible spouse or eligible children, a benefit of 25% of final average compensation is payable to each surviving dependent parent for life. The monthly benefit is reduced by any payments awarded under the Workers' Compensation or Occupational Diseases Acts.

C. Duration of Payment

The monthly annuity payable to a spouse terminates at death, or remarriage before age 55; to children at death, or attainment of age 18, or marriage.

D. Annual Increase in Benefits

The Occupational Death Benefit is increased by 3% each January 1 after receipt of benefits for one full year.

9. OTHER DEATH BENEFITS

If the beneficiary(ies) of the member do not qualify for any of the previously described death benefits, one of the following benefits is payable.

A. Before Retirement

If a member's death occurred while in state service the benefit consists of: (1) a refund of all contributions plus interest credited to the member's account; (2) a payment equal to one month's salary for each full year of pension credit not to exceed six month's salary.

If the member had terminated state service but not yet qualified for a pension, the benefit consists of a refund of all of the member's contributions to the System plus the interest credited to the member's account.

B. After Retirement

The benefit consists of a lump sum payment equal to the excess of contributions plus interest credited to the member's account over the total amount of pension payments made to the member. The minimum payment is $500.

10. *NONOCCUPATIONAL DISABILITY BENEFITS*

A. Qualification and Amount of Payment

Available to any member who has established at least one and one-half years of creditable service and who has been granted a disability leave of absence by the employing agency. The benefit is 50% of final average compensation and credit to the member's account of service and contributions. It begins on the 31st day of absence from service on account of disability (including any periods for which sick pay was received).

If the member has social security coverage as a state employee, the benefit payable by the System is reduced by the amount of any disability or retirement payment to which he is entitled under social security.

B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; (3) payments are made for a period of time equal to one-half of the pension credit established as of the date disability began; (4) attainment of age 65, if benefit commenced prior to the attainment of age 60; (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (6) death of the member.

C. Increase in Benefit

The Nonoccupational Disability benefit shall be increased by 7% following the fourth anniversary of the benefit and 3% each year thereafter.

11. OCCUPATIONAL DISABILITY BENEFIT

A. Qualification and Amount of Payment

Provided for any member who becomes disabled as the direct result of injury or disease arising out of and in the course of state employment.

The benefit is 75% of final average compensation plus a credit to the member's account of service and contributions. The cash benefit is reduced by any payment received under the Workers' Compensation or Occupational Diseases Acts.

B. Duration of Payment

Monthly benefits are payable until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; or (3) attainment of age 65, if benefit commenced prior to the attainment of age 60; (4) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (5) death of the member.

C. Increase in Benefit

The Occupational Disability benefit shall be increased by 7% following the fourth anniversary of the benefit and 3% each year thereafter.

12. TEMPORARY DISABILITY BENEFIT

A. Qualification and Amount of Benefit

Available to any member who becomes disabled, has established at least one and one - half years of creditable service, has been denied benefits under the Workers' Compensation Act or the Workers' Occupational Diseases Act, and has filed an appeal with the Industrial Commission of Illinois. The benefit is 50% of final average compensation plus credit to the member's account of service and contributions. The benefit shall begin to accrue on the 31st day of absence from service and shall be payable upon the expiration of 180 days from the day the member last received compensation.

If the member has social security coverage as a state employee, the benefit payable by the System is reduced by the amount of any disability or retirement payment to which he is eligible to under social security.

B. Duration of Payment

The member is eligible for the monthly benefit until the occurrence of any of the following events: (1) disability ceases; (2) resumption of gainful employment; (3) payments are made for a period of time equal to one-half of the pension credit established as of the date disability began; or (4) attainment of age 65, if the benefit commenced prior to the attainment of age 60; or (5) the fifth anniversary of the effective date of the benefit if the benefit commenced on or after the attainment of age 60; or (6) death of the member.

13. SEPARATION BENEFITS

Upon termination of state employment by resignation, discharge, dismissal or layoff, a member may obtain a refund of the contributions made to the System. By accepting a refund, a member forfeits all accrued rights and benefits in the System for himself and his beneficiaries.

LEGISLATION

LEGISLATIVE AMENDMENTS - Amendments with an effective date during fiscal year 1992 having an impact on the System were:

SENATE BILL 1951 - (P.A. 86-1488)

Approved in January 1991, provided a six month window during which refunds could be repaid at an interest charge of 2.5 per annum. Applications for repayment that were received in June of 1991 are reflected for the first time in this valuation.

SENATE BILL 0136 (P.A. 87-0011)

Provisions affecting the operation of the System are as follows:

1. System Trust Fund - Eliminates the six-month qualifying period for police positions covered by the System.
2. Social Security Fund - Amends the Social Security Enabling Act to allow the governing body of any political subdivision to levy taxes for social security contributions due pursuant to the mandatory social security federal law change.

SENATE BILL 0045 (P.A. 87-0014)

Approved in August of 1991, provided an early retirement incentive (ERI) program under which employees who were active at any time during May, 1991, who either attained age 50 or accumulated 30 or more years of creditable service by December 31, 1991, could establish up to 5 years of creditable service by making an employee contribution to the System based on the member's final rate of compensation and on one-half of the retirement contribution rate in effect for the member on the date of withdrawal. More than four thousand six hundred employees retired under this program.

SENATE BILL 0341 (P.A. 87-0105)

This bill provided for an employer pickup of a portion of the required member contributions: 4% of pay for regular employees, and 5 1/2% pay for alternative formula employees. The pickup was effective January 1, 1992, and the cost to the state was partially offset by lowered salary increases for fiscal 1992, which resulted in a decrease in the Accrued Actuarial Liability for active employees.

HOUSE BILL 0971 (P.A. 87-0794)

Allows a member to establish service credit for up to two years of active military service for which he is not eligible under Section 14-105. The employee cannot be dishonorably discharged and the amount of service credit established when added to the amount of military service credit granted under Section 14-105 can not exceed five years.

NEW LEGISLATION - Amendments with an effective date subsequent to June 30, 1992, affecting the operation of the System:

SENATE BILL 1949 (P.A. 87-0925)

Changed the state's Unclaimed Property Act to provide for a holding period of five instead of seven years. This will result in the availability of an additional $50 million which will be divided among the five state financed retirement systems during FY93. As a result of this legislation, the System should receive an additional $8.6 million.

HOUSE BILL 3230 (P.A. 87-0923)

Provides for a continuing appropriation of funds due the five state financed retirement systems from unclaimed property receipts. This legislation has the effect of making the annual appropriation of these funds automatic, not requiring specific action of the General Assembly. While the normal level of financing from unclaimed property is small, less that $4 million a year, enactment of this legislation establishes a very positive precedent.